GENSTAR

ANNUAL REPORT 1983

Genstar Corporation

Corporate Information

Auditors: Coopers & Lybrand, Vancouver, British Columbia

Transfer Agents and Registrars: Canada Permanent Trust Company, Halifax, Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver.

Morgan Guaranty Trust Company of New York, New York

Stock Exchanges: (Symbol GST) Toronto, Montreal, Alberta and Vancouver Stock Exchanges in Canada

New York and Pacific Stock Exchanges in the United States

Brussels and Antwerp Bourses in Belgium

Zurich, Geneva and Basel Exchanges in Switzerland

Luxembourg Stock Exchange

Form 10-K
Genstar Corporation is incorporated under the laws of Canada. The company files an annual report on Form 10-K with the Securities and Exchange Commission, Washington, D.C. This report is available free of charge to shareholders on request to the Public Relations Department of the company.

Stock Dividend and Dividend Reinvestment Plans
Genstar has established separate optional plans as convenient means for holders of its registered common shares to elect either to receive stock dividends in lieu of cash or to acquire additional Genstar shares through reinvestment of cash dividends and optional cash payments. For more information, contact: Canada Permanent Trust Company, Box 10152, Pacific Centre North, 701 West Georgia Street, Vancouver, British Columbia, Canada V7Y 1E5.

Version Française
Les actionnaires qui désirent recevoir ce rapport en français sont priés de s'adresser au service des Relations Publiques de la Société.

Annual Meeting

The Annual Meeting of Genstar shareholders will be held on Wednesday, May 9, 1984, at 11:00 a.m. at the Royal York Hotel, 100 Front Street West, Toronto, Ontario, Canada.

Genstar Corporation

Executive Office:
Four Embarcadero Center
San Francisco, California 94111
U.S.A.
Tel: (415) 986-7200

Head Office:
1177 West Hastings Street
Vancouver, British Columbia
Canada V6E 3Y3
Tel: (604) 689-1611

Corporate Profile

Genstar Corporation manufactures and supplies building materials and services, is active in land and real estate development, and engages in a variety of financial services. Building materials and services are provided primarily in Western Canada and throughout the United States. Real estate activities are concentrated in Western Canada, Ontario and the Western and Southern U.S. Financial services are offered nationwide in both countries and in selected markets abroad.

Contents

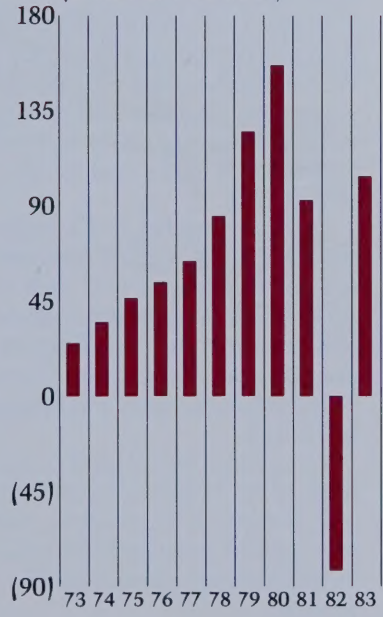
Financial Highlights

For the years ended December 31

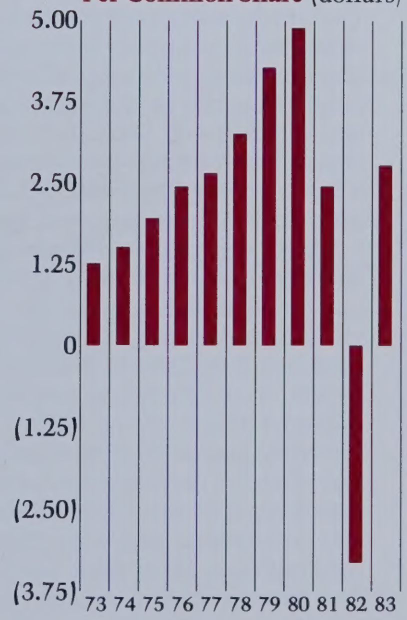
	1983	1982	1981
	(millions of Canadian dollars)		
Revenues	**$1,826.7**	$1,760.2	$2,145.9
Operating Income	**252.0**	24.5	242.4
Net Income (Loss)	**103.0**	(84.3)	93.8
Net Funds Generated (Required) by Operating Activities	**228.0**	(37.7)	(0.1)
Dividends on Common Shares	**21.9**	27.7	54.8
Per Common Share:			
Net Income (Loss)			
Canadian Method			
Basic	**$ 2.83**	$ (3.36)	$ 2.40
Fully Diluted	**2.72**	(3.36)	2.34
United States Method			
Primary	**2.72**	(3.36)	2.37
Fully Diluted	**2.72**	(3.36)	2.34
Dividends (current annual rate: $0.80)	**.65**	.90	1.80
Book Value	**22.97**	20.89	24.31
Stock Price-Toronto Stock Exchange			
High	**38.75**	24.75	42.75
Low	**20.25**	8.88	18.38
Total Debt-to-Equity Ratio	**53:47**	61:39	57:43

Revenues (millions of dollars)

Net Income (Loss) (millions of dollars)



Net Income (Loss) Per Common Share (dollars)



Report Of The Directors

Angus A. MacNaughton *Ross J. Turner*

The economic recession that began in mid-1981 and intensified in 1982 began to moderate in most North American markets during 1983, although improvement was more pronounced in the United States than in Canada. Interest rates stabilized at more affordable levels in both countries, and the company benefited from actions taken during the past two years to lower overhead expense, improve operating efficiency, and reduce debt. As a result, Genstar's operating income increased significantly in 1983, while interest and other expenses declined.

Financial Results

For the year ended December 31, 1983, net income rebounded to $103 million or $2.83 per common share, compared to the loss of $84.3 million or $3.36 a share in 1982. Revenues advanced to $1.83 billion, up marginally from $1.76 billion a year ago.

All of Genstar's major lines of business were profitable in 1983, and operating income increased to $252 million from $25 million the year before.

With housing starts in the U.S. rising nearly 60 percent during the year, there were significant improvements in Genstar's building supplies and land and real estate development operations, which returned to profitability after suffering losses a year ago.

There was also a substantial increase in income from financial services, the largest contributor to earnings for the second year in a row. Sales of venture capital investments, in particular, played a major role in 1983's recovery, accounting for nearly one-third of the company's total operating income. Genstar realizes substantial profits on a continuing basis from these ventures and expects them to remain a significant source of earnings in the future. Over the past five years, income from this portfolio of emerging growth companies has amounted to more than $160 million, and the estimated value of holdings at year-end was approximately $220 million.

Significant Developments

Many of 1983's more notable accomplishments were a continuation of programs begun the year before. The achievements, and the objectives as set forth in last year's annual report, include:

• *Increasing operating efficiency and reducing expenses*

Major reductions have been made in overhead costs since 1981. While further cuts will not be as extensive, Genstar will continue to keep these expenses at levels appropriate to current market conditions.

Selling, general and administrative costs, which amounted to $258 million in 1981, fell to $204 million a year later and to $187 million in 1983. The improvement is even more dramatic when adjusted for the effects of inflation.

As revenues declined from a high of $2.3 billion in 1980, it has also been necessary over a three-year period to reduce the number of fulltime employees by 25 percent.

In addition, capital expenditures have been limited to those projects which pay off quickly in terms of competitive advantage or production efficiency. Total expenditures, which amounted to $148 million in 1981, were reduced to $66 million in 1982 and to $40 million last year.

• *Improving cash flow and reducing debt*

Concerted efforts have been made to reduce both inventories and accounts receivable, which are expensive to carry in periods of high real interest rates. Inventories, other than land, are down more than 50 percent from their high of $360 million in 1981. Accounts receivable are also significantly lower, falling from $377 million in 1981 to $281 million in 1982 and $260 million at the end of 1983.

These efforts have improved cash flow and reduced the need for additional borrowing during periods of peak activity. That, in turn, helped Genstar exceed the goal set at the beginning of the year to reduce total debt by $200 million in 1983. By year-end, debt was down $310 million, and this 23 percent decline, coupled with lower rates, contributed to a $57 million drop in interest expense during the year. Debt reduction since mid-1982 now amounts to more than $500 million, and the company's objective is to reduce it still further as a percentage of total capitalization, a prudent policy in economic periods of lower inflation.

• *Stabilizing the earnings base*

Genstar's financial service operations have proven to be a highly reliable source of income, even in periods when its more cyclical construction-related businesses are experiencing difficulties. While the recovery of real estate and building supplies operations was the most prominent factor in the rebound of operating earnings, the major contribution of financial services in 1983 should be emphasized.

In addition to the gains from venture capital investments, record results were reported by Genstar's container leasing, electronic equipment rental and mortgage banking companies. Income also improved from the trust and real estate brokerage divisions of the largest financial service operation, Canada Permanent Mortgage Corporation.

In late 1982, Genstar consolidated most of these diversified activities within a single subsidiary, Genstar Financial Corporation. This action has enhanced understanding in capital markets of the size and scope of these businesses and will facilitate financing of their future expansion.

Outlook

Economic recovery is well under way in the United States. Growth has slowed to a more sustainable rate from the high levels achieved in mid-1983, and this should lessen the risk of higher inflation. Interest rates have also remained stable despite high federal deficits and government borrowing. Consumers are regaining confidence in the economy, the affordability of housing has increased markedly, and 50 percent more U.S. households can now qualify for mortgage financing than at the end of 1982. Clearly, the opportunities for Genstar businesses to achieve more normal levels of profitability have been enhanced, and the company anticipates continued improvement in U.S. operations during 1984.

Key markets in Western Canada, however, are expected to remain comparatively weak, particularly in Alberta where declining world prices for petroleum products and restrictive provisions of Canada's National Energy Program have reversed the pattern of rapid growth that prevailed prior to 1982. While difficulties are not as pronounced in other areas of Canada, recovery remains somewhat behind that of the United States, and significant growth is not foreseen before 1985. This will moderate the overall improvement in Genstar operations during the coming year.

The general trends in North America, then, favor a steady but relatively slow growth in revenues. Operating income will benefit as that occurs, since Genstar is a leaner, more productive company than at the beginning of the recession, and its debt is down significantly.

While the company will continue to be aggressive in seeking new business opportunities, it is appropriate to adopt a more conservative financial posture and depart from the more highly leveraged capital structure of the inflationary 1970s. To this end, continued emphasis will be placed on increasing cash flow and some further reduction of debt. Genstar may also increase its equity base and has filed a shelf registration with the U.S. Securities and Exchange Commission that permits it to issue up to 3,000,000 additional common shares between now and November 1985.

Board of Directors

In 1983, the directors were saddened by the death of James D. Moran. Mr. Moran was Chairman and Chief Executive Officer of The Flintkote Company, which was acquired by Genstar in 1979. He served the company well during his too brief tenure as a director.

The Board of Directors also accepted with regret the resignation of Mr. Robert G. Rogers upon his appointment as Lieutenant Governor of British Columbia. The Board is indebted to Mr. Rogers for his 10 years of service as a director, counselor and friend, and the company wishes him well in his challenging new assignment.

Appointed to the Board in November were Mr. Frederick W. Mielke, Jr., and Mr. Stephen R. Volk. Mr. Mielke is Chairman of the Board and Chief Executive Officer of Pacific Gas and Electric Company in San Francisco, and Mr. Volk is a partner in the law firm of Shearman & Sterling in New York City.

Looking back on 1983, the directors would like to express their appreciation to Genstar's 15,000 employees. The company has asked unusually demanding service of them in the past two years of adversity and looks forward to more prosperous times as a result of their efforts.

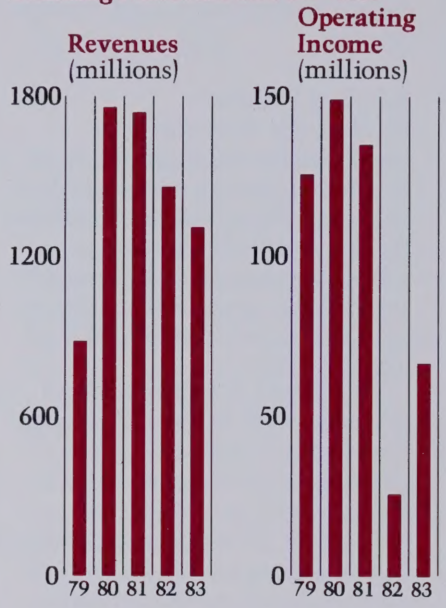
Angus MacNaughton

Angus A. MacNaughton
Chairman

March 8, 1984

Ross J. Turner
President

Building Materials and Services



In terms of assets and revenues, the manufacturing and supply of a broad range of building products and construction-related services is Genstar's largest line of business. It encompasses four major areas of activity:

Cement and Lime—The company is a leading manufacturer of cement in Western Canada and a major supplier in California, Oregon and Nevada. It is also a major producer of lime products in the Western United States.

Concrete, Aggregates and Construction Services—These materials and services are provided primarily in the four western provinces of Canada and in the mid-Atlantic region of the U.S. Raw materials for these products, as well as for cement and lime, are generally supplied by the company's own pits and quarries.

Building Supplies—Genstar produces gypsum wallboard in Western Canada and throughout the United States and is one of the larger U.S. manufacturers of asphalt roofing products. The company is also engaged in a variety of waste management activities, many of which involve the recycling of resources and recovery of energy.

Marine Services and Other Operations—Marine services include tug and barge transportation of forest products, building materials and other cargos, primarily along the Pacific Coast of North America; the transport of heavy-lift, modular cargos and specialized support services on an international basis; shipbuilding and repair in Vancouver; and salvage operations, principally on the St. Lawrence Seaway and the Atlantic Coast of North America. Also accounted for in this category are returns from a 50 percent interest in a Canadian firm that manufactures nitrogen-based chemicals.

Combined operating income in 1983 from the building materials and services operations was significantly higher than in 1982, despite a decline in revenues. The gain came entirely from the building supplies sector, which returned to profitability after suffering losses in 1981 and 1982. Income from cement and lime manufacturing approximated that of the year before, while returns from concrete, aggregates and construction services and from marine and chemical operations declined. Performance of the four major activities that comprise this line of business is discussed in detail on the pages that follow.

BUILDING MATERIALS AND SERVICES

Cement And Lime

	1983	1982	1981
	(millions)		
Revenues	**$225.6**	$232.9	$313.2
Operating Income	**$ 19.7**	$ 20.1	$ 58.9

Products:
Normal portland cement; oil well, high early-strength, masonry, sulphate-resistant, potash and other specialty cements. High calcium and dolomitic quicklime and hydrated lime; various crushed limestone products.

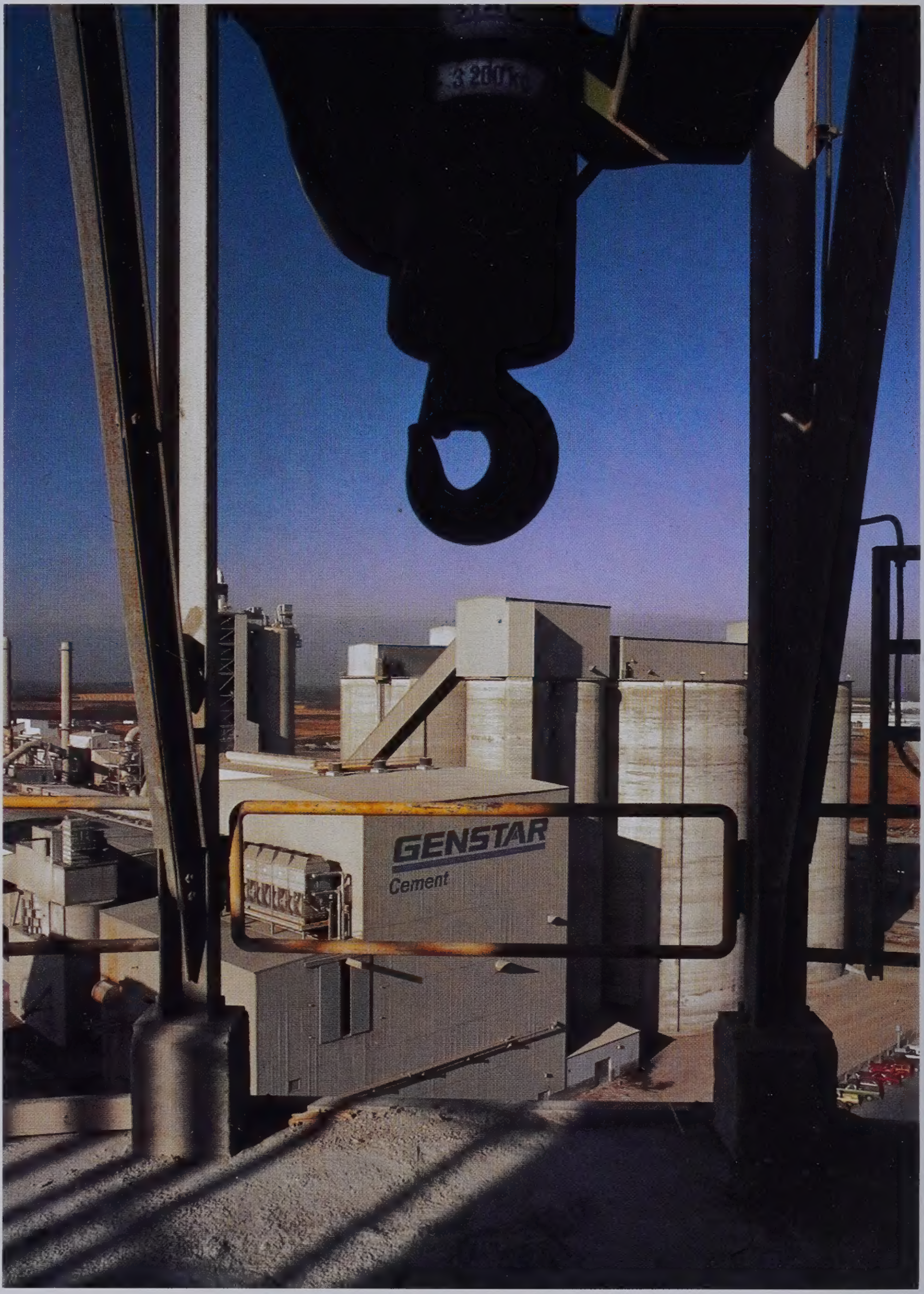
Cement Plants:

Location	Annual Capacity*
British Columbia	1,000,000
Alberta	1,417,500
Saskatchewan	227,500
Manitoba	350,000
California	1,200,000
Total	4,195,000

Lime Plants:

Location	Annual Capacity*
Arizona	640,000
California	124,000
Nevada	311,000
Utah	74,000
Total	1,149,000

*Short tons.



Between 1977 and 1983, approximately $140 million was spent to expand and modernize Genstar's largest cement plant and the limestone quarry that serves it in Alberta. Today, even in periods of relatively low demand, this is one of Genstar's most cost-effective operations.

Volumes, revenues and operating income from cement and lime manufacturing in 1983 nearly matched levels of a year ago, but remained well below the record achieved in 1981.

In Canada, gains in cement volumes at the British Columbia, Saskatchewan and Manitoba plants were offset by a 25 percent decline in Alberta. Large hydroelectric, mining and marine shipping-terminal projects helped increase sales by one-third in British Columbia, and construction of a major dam contributed to higher volumes in Saskatchewan. Sales for residential construction also improved in Saskatchewan and Manitoba because of provincial and federal housing subsidy programs. In Alberta, however, delays or cancellation of major energy and resource development projects have curtailed industrial and commercial construction, and housing starts remain at very low levels.

In Northern California, revenues and volumes of cement declined slightly as a result of low construction activity early in the year. Intense competition also kept prices below 1982 levels. As a result, the

U.S. operation continued to report losses in 1983, despite improved sales during the second half of the year when homebuilding and light commercial construction gained strength.

Revenues and operating income of U.S. lime manufacturing operations rose modestly in 1983. Higher levels of residential and light commercial construction stimulated demand for hydrated lime products, which are used in stucco, masonry and soil stabilization. Demand for quicklime remained at 1982's depressed level, however, as small gains in copper, mining and air pollution control markets were offset by the closure of a major steel manufacturing customer.

Capital expenditures at cement and lime production facilities amounted to only $6.5 million in 1983, down from $21.7 million the year before. Outlays in 1984 are expected to total $8.6 million. Major construction, expansion and modernization programs, in which Genstar invested more than $250 million between 1978-83, are now essentially complete.

These investments in efficient plants and equipment, coupled with inventory control through periodic plant closings, kept manpower requirements in Canada 44 percent lower than peak levels in 1981. This, along with reduced capital expenditures, contributed to a 96 percent improvement in cash flow at Canadian plants during the year. Similarly, U.S. cement and quicklime manufacturing is being confined to Genstar's more modern facilities, and less efficient kilns will remain shut down until market conditions improve. In contrast to the year before, this resulted in positive cash flow at U.S. operations in 1983.

In 1984, operating income is expected to increase as a result of improved performance in the United States. Assuming interest rates remain stable, further gains in U.S. housing starts are predicted, and income from public works projects should rise because of a $5-billion federal roadbuilding and repair program. These favorable conditions, along with an increase in cement prices that went into effect in early 1984, should be sufficient to return California cement operations to profitability. In addition, margins at U.S. lime plants are expected to improve as a result of shifting production to more efficient facilities. Canadian cement plants should benefit from further cost reductions, and increased exports from British Columbia are expected to compensate in part for the reduced construction activity in Alberta.

The sophisticated control room of Genstar's Redding, California, cement plant reflects the technological advances incorporated in this facility during a major expansion that was completed in early 1981. Until market conditions improve, cement production in the U.S. has been shifted entirely to this highly automated, fuel-efficient facility.

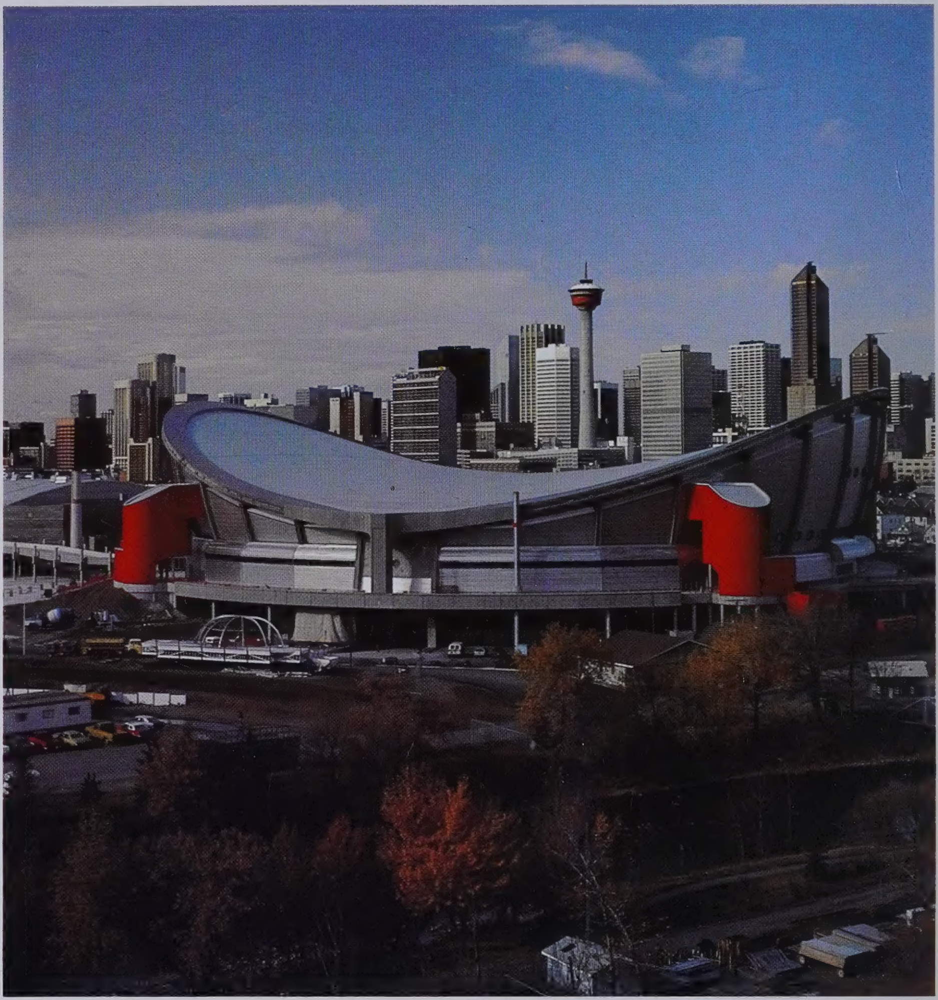
Concrete, Aggregates And Construction Services

	1983	1982	1981
	(millions)		
Revenues	**$487.1**	$575.1	$668.1
Operating Income	**$ 25.0**	$ 31.3	$ 69.5

Products/Services:
Classified sand, gravel, standard and lightweight aggregates; crushed stone; ready-mix concrete; precast and prestressed structural and architectural concrete components; concrete blocks, pipe and railway ties; bituminous concrete/asphalt; calcium carbonate products; home repair products, including dry bagged concrete, mortar and blacktop mixes. Municipal construction services and real estate subdivision servicing, including road construction, paving and installation of utilities.

Plants:	Canada	U.S.	Total
Ready-Mix Concrete	22	14	36
Precast Concrete	10	—	10
Concrete Block	6	—	6
Concrete Pipe	7	—	7
Concrete Rail Ties	1	—	1
Asphalt & Bituminous Concrete	7	7	14
Dry Bagged Mixes	5	8	13
Aggregates*	21	10	31
Calcium Carbonate Products	—	1	1
Total	79	40	119

*Includes sand, gravel and crushed stone plants.



The "Saddledome," Calgary's new sports coliseum, perhaps represents Genstar's most innovative use of precast, prestressed concrete components. Completed in 1983, its 3-acre, clear-span concrete roof is the largest ever built. Cables strung from the stadium rim support nearly 400 precast concrete slabs which, with concrete poured between them, form a single unit that is considered structurally sounder than conventional roofs.

Although markets improved in the U.S., low levels of construction activity in Western Canada reduced overall returns from concrete products, aggregates and construction services for the second year in a row. Operating income was about 20 percent lower than in 1982 and less than half of 1981's record level.

Canadian operations had a difficult year because of the continuing lack of demand for construction materials and services in Alberta. That province, with massive investments in petroleum and petrochemical projects in the late 1970s and early 1980s, had been the company's largest market. By the end of 1981, however, Canada's National Energy Program was discouraging foreign investment, and falling petroleum prices had made proposed heavy oil and tar sand developments economically unattractive. The postponement or abandonment of these major projects has caused a retrenchment in the oil and gas industry and a severe decline in new construction of all types. In contrast, the British Columbia market held up reasonably well in 1983, and increased residential construction produced gains in margins and profits in Saskatchewan and Manitoba.

Among major Western Canadian divisions, the precast concrete operation was the only one to generate higher earnings. Demand for precast structures was highest in British Columbia, and this division also benefited from record sales of its concrete railway ties. Twelve railroads are now using or evaluating them, and the Canadian National Railway installed its two-millionth Genstar tie in September.

Low demand and competitive pressure on prices in Alberta, however, kept income from the Canadian division that makes concrete blocks,

pipe, ready-mix and aggregates significantly lower than in 1982. The largest shortfalls were in sales of concrete drainage products and ready-mix. As a consequence, two ready-mix plants were leased to other operators during the year, and four others have been closed until market conditions improve. Only the sales of packaged materials improved, and Genstar opened a new manufacturing facility in Winnipeg to make these bagged mixes available in Manitoba and Northwest Ontario for the first time.

Construction operations in Western Canada were equally depressed because of a lack of funding for municipal projects and little demand for subdivision servicing. After reporting a small loss for 1983, Genstar's construction services division withdrew from the British Columbia market and will now operate only in the provinces of Alberta, Saskatchewan and Manitoba. The phasing out of Genstar's heavy construction activities was completed during the year, except for one joint venture in which Genstar has less than a 20 percent interest.

In keeping with its policy of concentrating assets only in geographic areas with above-average growth potential, Genstar sold its construction, packaged materials, aggregates, asphalt, and concrete block businesses in Eastern Canada and Buffalo, New York, during 1983.

In contrast to Canada, U.S. operations had a good year as markets improved and modern facilities contributed to higher profitability. Earnings from aggregates and crushed stone rose significantly on a small increase in volume following start-up of two highly automated stone crushing plants near Baltimore, Maryland. Sales and income from ready-mix, asphalt and related construction services were well above 1982 levels as the building industry gained strength and state and federal road resurfacing programs added to demand. Returns from calcium carbonate products also rose with sales of new cars, which use this material in reinforced plastic parts. Only packaged materials, because of higher production costs and an extended labor dispute, failed to match last year's results. During the second quarter, the company will complete construction of a new packaged materials plant to serve the Philadelphia, Pennsylvania, area, and construction of a new coal tar emulsion plant is also planned for 1984.

Demand for concrete products and construction services during 1983 rose significantly in the U.S., but was well below the prior year's level in Canada.

Capital expenditures such as these, in both the U.S. and Canada, amounted to $10.7 million in 1983, compared to $13.2 million the year before. In 1984, they are expected to total $22.2 million.

Genstar believes the strength that became evident in U.S. markets during the latter half of 1983 will continue into 1984. Operations will also benefit from the modern, new plants and equipment that became operational in late 1983 or will begin production in 1984. Growth in the U.S. is expected to be more than offset by economic difficulties in Canada, however, with depressed conditions continuing in Alberta and only modest gains at best foreseen in other western provinces. Real improvement is not anticipated before 1985, when major projects associated with transportation, energy and the 1988 Winter Olympics should return Alberta to more normal levels of construction activity.

Building Supplies

	1983	1982	1981
	(millions)		
Revenues	**$453.3**	$473.9	$575.3
Operating Income (Loss)	**$ 14.7**	$ (42.8)	$ (29.0)

Products/Services:
Gypsum wallboard; roofing products, including asphalt shingles and rolls, liquid asphalt coating, felt and paperboard; asphaltic adhesives; recycled rubber additives for asphalt paving; concrete admixtures. Wholesaling and distribution of construction materials to builders; sanitary landfilling and methane gas recovery; sludge disposal.

Gypsum Wallboard and Roofing Plants:

	Annual Capacity	
Location	Wallboard*	Roofing**
British Columbia	160,000	—
Alberta	175,000	—
Saskatchewan	160,000	—
Arkansas	—	185,000
California	—	200,000
Colorado	225,000	—
Georgia	310,000	175,000
Illinois	—	330,000
Minnesota	—	120,000
Nevada	315,000	—
New Jersey	270,000	—
Texas	332,000	200,000
Total	1,947,000	1,210,000

*Thousands of square feet (for 3-shift, 6 2/3-day-per-week operations). **Tons.
(Roofing figures do not include production capacity for 35,000 tons of liquid compounds, 192,000 tons of paperboard and felt, and 27,000 tons of fiberglass mat.)

Genstar's premium-grade, glass-mat asphalt shingles are capturing an increasing share of roofing markets, and a new glass-mat manufacturing plant should enhance profit margins in 1984.

Genstar's building supplies operations made a significant recovery in 1983, as the U.S. division that manufactures wallboard and roofing products returned to profitability and waste management operations reported much improved earnings. Overall, there was a $58 million improvement in operating performance over the loss suffered in 1982.

This segment of the company's building materials business is the most sensitive to levels of residential construction, and it benefited greatly in 1983 when growing confidence in the economy and lower mortgage interest rates encouraged builders to increase U.S. housing starts by nearly 60 percent. Smaller gains were also reported in commercial construction, remodeling and manufactured housing markets.

As a result, sales of gypsum wallboard exceeded expectations in most areas of the U.S. Plants operated at full capacity for much of the year, and the gypsum plant in New Jersey, which had been closed in the fall of 1982, was reopened in May to satisfy demand. Profit margins also improved in response to price increases and continuing efforts to reduce production costs. In 1983, additional savings were realized through completion of a new plant that reclaims waste gypsum rock at a lower cost than quarrying, and installation was begun of an innovative system that uses less expensive raw materials to produce wallboard paper.

The comparatively smaller gypsum operations in Canada did not fare as well, although stringent cost controls and changes in production methods permitted a modest increase in income. Demand rose slightly in British Columbia and Saskatchewan, but depressed levels of residential and commercial construction in Alberta continued to keep wallboard volumes well below normal levels. The division sold its insulation manufacturing and drywall supply operations during the year.

Unlike wallboard sales, volumes of roofing products in the U.S. were essentially unchanged from a year ago. Competitive pressure on pricing, which had been a serious problem in 1982, stabilized with demand, and cost controls implemented during the past two years helped reduce losses. A modernization and expansion program was completed at the roofing plant in Arkansas during 1983. Progress was also made on the new glass-mat manufacturing plant in Texas, with completion expected in the second quarter of 1984. That facility will enhance the company's ability to compete in Central

U.S. markets for asphalt-coated fiberglass shingles, which offer higher fire resistance and are less expensive to manufacture than conventional felt-mat products. Genstar also introduced a new, premium-grade laminated glass-mat shingle during the year, giving the company one of the most complete lines of residential shingles in the industry.

Operating results of Genstar's network of wholesale building supply centers also improved. Now concentrated in higher growth areas of the Southwestern U.S., the number of centers presently totals 16, down from 17 and 39 respectively at the end of 1982 and 1981.

Income from Genstar's waste management and resource recovery activities rose significantly in 1983. Rubber recycling and sanitary landfilling units made particularly good gains, and returns from sludge disposal were better than a year ago. The market for fly ash and admixtures declined, however, and one fly ash operation in Eastern Canada was sold because of poor conditions in cement and ready-mix markets where these products are used as additives. Construction began during the year on a third rubber recycling facility, and a process is being introduced at an existing plant to reclaim higher grade rubber suitable for radial tires. Also, two more waste transfer stations came under Genstar management in 1983, and the company doubled the capacity of its small power plant in Northern California which burns landfill gas to generate electricity for sale to utilities. Two additional power plants will become operational in early 1984.

As residential construction markets gained strength in the U.S., sales of gypsum wallboard exceeded expectations, and Genstar plants operated at peak capacity for much of 1983.

Capital expenditures by all building supplies operations in 1983 amounted to \$21.7 million, compared to \$20.4 million a year ago. Of these, the largest outlay was for work on the new glass-mat facility. Expenditures are expected to total \$26.2 million in 1984.

During the coming year, a modest rise in exports and in construction activity in some provinces should result in a small increase in wallboard volumes in Canada. New waste management and resource recovery projects and facilities are also expected to contribute to higher revenues and earnings. The largest gains, however, should be realized by U.S. roofing and wallboard operations.

In the United States, if the economy continues to gain strength and interest rates remain at realistic levels, some improvement is anticipated in commercial construction activity, the remodeling and repair markets are expected to be substantially stronger, and housing starts should equal or exceed 1983's total. As a consequence, sales and pricing of gypsum products would remain strong throughout the year. There should also be some improvement in asphalt roofing volumes and prices. Although roofing gains may be limited somewhat by overcapacity in the industry, Genstar expects margins to improve upon completion of its new glass-mat plant.

Two additional landfill sites came under Genstar management in 1983, including this one in Vancouver where the company employs special lightweight trailers and a novel self-propelled "tipper" to quickly handle large volumes of waste.

Genstar's large Pacific Coast fleet of tugs and barges, two of which are shown passing beneath San Francisco's Golden Gate Bridge, reported a substantial improvement in operations during 1983.

Marine Services And Other Operations

	1983	1982	1981
	(millions)		
Revenues	**$122.1**	$156.1	$155.4
Operating Income	**$ 6.9**	$ 16.9	$ 33.5

Marine Services:
Tug and barge transportation; shipbuilding; ship repairs; salvage; ferrying; berthing; lighterage; pollution control.

Products:
"Other" operations consist of a half interest in Nitrochem Inc., a company that, directly or through affiliates, manufactures nitrogen-based chemicals, industrial gases, fertilizers and blasting agents.

Marine Equipment:

Tugs (from 335 to 7,080 brake horsepower)	58
Self-propelled train ships	2
Standard barges	254
Submersible barges (400 x 100 feet)	6
Self-loading, self-dumping log barges (from 12,500 to 20,000 tons)	3
Floating salvage derrick	1

Operating income from marine services, though well below 1981's record level, nearly matched that of a year ago on somewhat lower revenues. "Other" operations, however, which primarily consist of chemical manufacturing interests in Eastern Canada, reported sizable losses when the high price of Canadian feedstocks made it difficult to compete against U.S. firms. As a consequence, total income from marine and other operations was significantly lower than in 1982.

During 1983, there was substantial improvement in Genstar's largest marine operation, the fleet of tugs and barges that transport cargo along the Pacific Coast of North America. This unit is heavily dependent on British Columbia's forest products industry, which is gradually emerging from the previous year's recession. Pulp, paper and wood chip traffic improved throughout 1983, and lumber shipments were strong through the first half of the year. There was also an improvement in log barging revenues because of increased logging and the strong position Genstar enjoys in this market as a result of its modern equipment. Unfortunately, one of the fleet's self-loading/self-dumping log barges was severely damaged in December when it ran aground during a storm. The vessel has been salvaged, and will return to service in 1984. In the second quarter, a large shipdocking tractor tug will also be added to the fleet to better serve a major coal terminal at Roberts Bank, British Columbia.

Capital expenditures by marine operations for new equipment in 1983 totaled only $300,000, compared to $3.5 million a year ago. In 1984, expenditures of $5.9 million are anticipated.

Unlike operating income from West Coast tug and barge operations, returns declined from the smaller, ocean-going fleet that transports heavy-lift, modular cargo in international waters. Revenues from European markets improved, but overseas work as a whole involved jobs that were smaller and of shorter duration than in the past. As a consequence, unused shipping capacity worldwide put intense competitive pressure on margins.

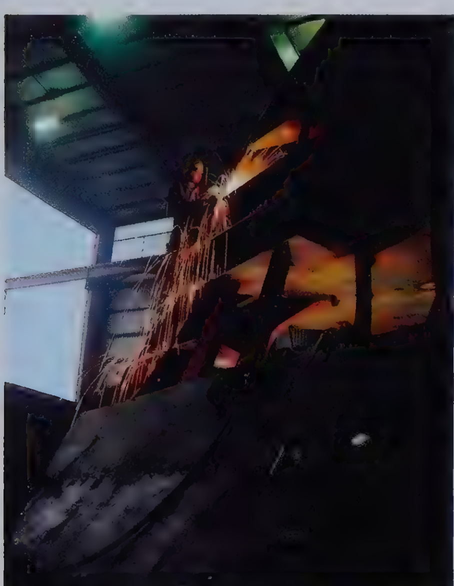
The depressed state of both international and domestic shipping in the St. Lawrence Seaway and along the Atlantic Coast of North America had an equally negative effect on Genstar's Eastern Canadian salvage operation, and it reported lower earnings for the second year in a row.

The company's shipyard in Vancouver, which had an excellent year in 1982, also suffered a large decline in business and experienced a small loss in 1983. A 260-foot-long, icebreaking Arctic supply vessel, on which work had begun the year before, was delivered at mid-year, but volume in the latter half of the year approached a 10-year low. Both new ship construction and repair work declined because of reduced demand in the offshore petroleum industry, fiscal cutbacks in provincial ferry expenditures, and low levels of activity among other coastal shippers.

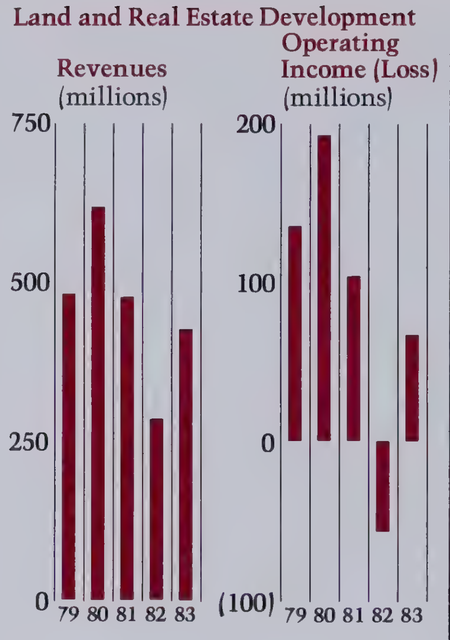
Problems encountered by the marine services sector were minor, however, compared to difficulties experienced by the company's chemical manufacturing venture in Eastern Ontario. Under provisions of Canada's National Energy Program, this operation is now paying over 25 percent more for natural gas than its U.S. competitors immediately across the border. Gas is the primary feedstock for the ammonia chemical industry, and it can represent as much as 70 percent of direct operating costs. As a consequence, Genstar experienced a loss on this investment last year and, unless the federal government reverses its policy, is likely to do so again in 1984.

In contrast, good gains are expected in operating income from marine services during the coming year. While shortfalls in international shipping may continue to depress offshore transport and salvage operations, the large Pacific Coast fleet should profit from further increases in forest products shipments. More significantly, the shipyard should return to profitability. A major federal shipbuilding program will raise levels of activity in the industry as a whole, and anticipated increases in forest products shipments will make more cash available to coastal tug and barge operators for deferred repairs and investments in new equipment.

Genstar's modern equipment attracted higher log barging revenues as British Columbia's forest products industry regained strength.



Although the company's shipyard delivered one of the largest vessels it has ever built, volumes of new construction and repair work declined after mid-year.



Land and real estate development was the most improved of Genstar's businesses in 1983. Although markets had been severely depressed the year before, this has traditionally been one of the company's most profitable enterprises.

Genstar develops land for sale as lots or parcels to builders and developers of residential, commercial and industrial real estate. After servicing raw land to add such infrastructure as roads, sewers and utilities, Genstar frequently constructs parks, lakes, golf courses or other amenities to enhance the value of the property.

Genstar is also a homebuilder, at times setting the tone or style of company land development projects by building the initial units in a subdivision.

The company also engages in the development of shopping centers, warehouses and industrial parks. Most are built for immediate sale, although Genstar also maintains a portfolio of income producing properties.

Primary areas of activity for both wholly-owned operations and joint-venture projects include the provinces of Alberta, British Columbia, Manitoba and Ontario in Canada, and the states of Arizona, California, Florida, Texas and Washington in the U.S.

Improving real estate markets in the United States, particularly in Southern California where Genstar has substantial landholdings, and the sale of a large shopping center in Canada helped return the company's land and real estate development operations to profitability in 1983. Operating income during the year represented an improvement of approximately $122 million over large losses the year before. Details of this recovery are provided on pages 16 and 17.

LAND AND REAL ESTATE DEVELOPMENT

LAND/REAL ESTATE

	1983	1982	1981
		(millions)	
Revenues	**$419.5**	$280.3	$470.3
Operating Income (Loss)	**$ 66.4**	$ (55.9)	$104.5

Products:
Developed building lots and parcels of land for residential, commercial and industrial construction; single and multifamily dwellings; shopping centers; office buildings; warehouses; industrial parks.

Genstar Acreage for Land Development:

	*Owned	*Held in Partnership	**Total 1983	1982
Canada	11,287	11,437	22,724	24,162
U.S.	8,228	1,639	9,867	11,252
Total	19,515	13,076	32,591	35,414

*At December 31, 1983. **At year-end, the company also held options to buy 6,874 additional acres of land in 1983 and 3,856 acres in 1982, primarily in the U.S. Figures exclude 6,317 serviced residential lots in 1983 and 8,463 in 1982.

Genstar Unit Housing Sales:

	1979	1980	1981	1982	1983
Canada	2,199	1,757	1,684	1,259	944
U.S.	3,578	2,827	1,729	1,190	1,061
Total	5,777	4,584	3,413	2,449	2,005

As mortgage financing stabilized at more affordable rates and consumers regained confidence in the economy, U.S. real estate markets rebounded strongly in 1983, and there was improvement in some Canadian provinces. As a result, Genstar revenues from land and real estate development increased by 50 percent, and steps taken during the past two years to reduce the asset base, limit risk from joint ventures, and improve cash flow permitted a return to profitability.

Sales from Genstar's land bank in the United States made large gains as housing starts nationally rose by nearly 60 percent from 1982's depressed level. Markets for industrial and commercial property also improved. The western states reported the greatest increase in residential construction, and Genstar's large landholdings in Southern California benefited accordingly. A major commercial parcel near San Diego was also sold late in the year. In addition, volumes improved significantly at developments in Florida and Texas.

Encouraged by this resurgence, Genstar in 1984 will begin developing its 2,600-acre Mountain Park Ranch project in Phoenix, Arizona, and is presently reviewing a promising 4,000-acre project in Orlando, Florida.

Revenues from land sales in Canada, however, were somewhat lower than in 1982. Demand for building lots in British Columbia, Manitoba and Ontario was stimulated in the first half of the year by government subsidies to homebuyers, but the Alberta market remained depressed. Declining prices and demand for that province's petroleum products have resulted in serious economic problems, and an oversupply of housing, office space and serviced land will not be quickly absorbed. Genstar's landholdings in Alberta are well located, however, and were acquired for the most part before 1977 at relatively low cost. This land is expected to again be a significant source of cash flow and income once the economy regains its momentum.

Overall, there was also substantial improvement in Genstar's homebuilding operations. The better results primarily reflected higher levels of activity in Southern California during the second half of the year, as sales in Texas declined and low demand in Alberta continued to depress Canadian results. To increase sales in Canada, Genstar has expanded its production of multifamily structures built under contract for investors and institutional buyers. Real estate joint-venture projects in the U.S. also had a difficult year and again incurred losses, although at a much reduced level from 1982. Considerable progress has been made in reducing Genstar's participation in ventures with limited potential. Only about 25 projects remain which require any meaningful development or marketing activity, compared to more than 50 active ventures at the end of 1982.

Both in Canada and the United States, the company in 1983 continued to build homes primarily on a presold basis and to reduce inventories and carrying costs. The company's landholdings declined by approximately 3,000 acres during the year, while options to purchase land, which incur negligible carrying costs, increased by about that same amount. Genstar's inventory of serviced lots was also reduced by 25 percent from the year before, and an even larger reduction was made in the number of houses completed or under construction and available for sale. As a consequence of these actions, net operating assets

There was substantial overall improvement in the performance of Genstar homebuilding operations in 1983. Housing markets remained weak in Alberta, however, and Genstar shifted some of its production to these smaller, less expensive units, for which there is still strong demand.

An increase of nearly 60 percent in U.S. housing starts during 1983 produced much higher levels of activity at Genstar's large landholdings in Southern California, including its 1,000-acre Bernardo Heights development in San Diego.

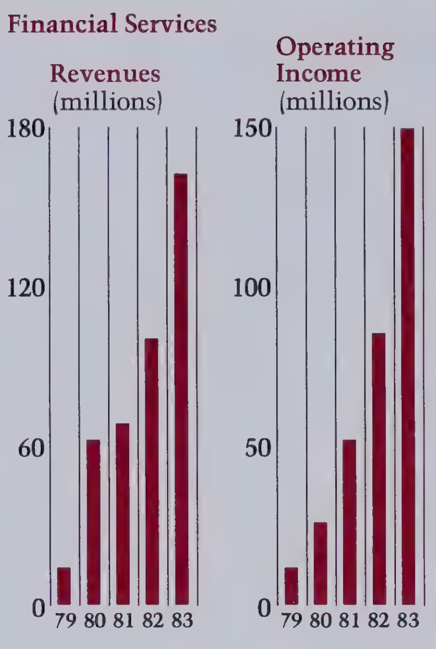
declined to $494 million at year-end, down 32 percent from $725 million at the end of 1982.

Genstar also builds and invests in industrial and commercial properties, some of which it sells and others it retains in a portfolio of income producing real estate. In Canada, where commercial and industrial real estate activities are conducted primarily in the metropolitan areas of Calgary, Edmonton, Toronto and Vancouver, earnings were substantially higher in 1983. Income rose both from sales, including a large transaction involving a million-square-foot shopping mall in Hamilton, Ontario, and from the portfolio of income property, which has increased more than fourfold in the past two years. In the United States, several neighborhood shopping centers that had been built in joint ventures were disposed of during 1983, and the wholly-owned operation that develops property in Northern California continued to generate income, although at a somewhat lower level than in 1982.

In 1984, continued improvement is expected in the management of real estate assets, and Genstar will further reduce its investment in higher risk joint-venture projects. The company's homebuilding divisions in both the U.S. and Canada will also perform as merchant builders, operating with a minimum investment in land and emphasizing efficiency, cost control and the rapid turnover of assets. Overall operating performance, however, in the absence of large land or commercial property sales, might not exceed that of the year just ended.

In Canada, recovery in Alberta is unlikely to commence before 1985, and returns from land and housing sales will remain well below normal. Accordingly, Genstar will continue to keep new development activities at levels consistent with existing market conditions, although it plans to participate fully in the modest improvement expected in other Canadian markets.

The outlook is much brighter in the U.S., where affordability of homes has increased markedly. During 1983, average inflation-adjusted gains in personal income were the highest in five years, average housing prices rose only slightly, and mortgage interest rates were appreciably lower than in 1982. As a consequence, the number of households able to qualify for new home financing at the beginning of 1984 was up more than 50 percent from a year earlier. If this favorable trend persists, demand for both land and homes in the U.S. should remain strong throughout the year, particularly in the growing regions of the South and West where Genstar assets are concentrated.



Financial services have been the most rapidly expanding of Genstar's major businesses in recent years. Since 1979, the company's investment in these enterprises has risen from $164 million to $515 million at the end of 1983, and operating income has climbed from $11 million to $148 million. During the past two years, this has been Genstar's most profitable area of activity.

The company engages in a wide variety of financial services, most of which are consolidated within Genstar Financial Corporation. This subsidiary, with assets of $7.4 billion, is structured to facilitate financing in various capital markets to support growth of these promising businesses.

Genstar's most important financial service activities include:

Retail and commercial banking operations. Throughout Canada, the company acts as a financial intermediary, accepting deposits and originating mortgages and other loans. The loan portfolio and other intermediary assets at the end of 1983 amounted to approximately $6.5 billion.

Trust services. A Genstar subsidiary is Canada's third largest trust company, administering $5.9 billion in assets for its clients. The company offers a full range of fiduciary services, including stock registration and transfer, dividend disbursement, pension fund investment management, and the administration of personal estates and trusts.

Mortgage banking. In the U.S., the company originates or purchases mortgages and resells them to institutional investors. It also services a $2.7-billion portfolio of these loans for its clients.

Real estate brokerage services are offered through a nationwide network of sales offices in Canada.

Rental of electronic test and measurement equipment is a growing business in both the U.S. and Canada.

Shipping container leasing is performed on an international scale.

Leveraged-lease brokerage activities consist primarily of arranging lease financing for plants and capital equipment.

Venture capital investment was Genstar's first financial service business, entered into in 1970. Investments consist primarily of equity holdings in emerging, young high-technology companies in the United States.

Operating income from financial services in 1983 reached a record level, with sales of venture capital investments making the largest contribution. The container leasing, electronic equipment rental, and mortgage banking companies also reported record results, and operating performance improved at Canada Permanent Mortgage Corporation, the Canadian banking, trust and real estate brokerage subsidiary. The activities of these and other financial service operations are discussed in greater detail on pages 20 and 21.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TREASURER
JOHN WILLIAM PODUSKA, SR.
PRESIDENT

Financial Services

	1983	1982	1981
	(millions)		
Revenues	**$159.0**	$98.9	$67.3
Operating Income	**$148.2**	$84.5	$52.4

Services:
Retail, commercial and mortgage banking; mortgage lending; personal, pension and corporate trust services; venture capital investment; real estate brokerage and investment; capital equipment leveraged-lease brokerage; rental of electronic test and measurement equipment; container leasing.

Offices:

Type	Location Canada	U.S.	Other	Total
Savings/Lending	107	4	1	112
Trust	*18	—	—	*18
Real Estate Brokerage	**130	—	—	**130
Mortgage Banking	—	3	1	4
Electronic Equipment Rental	3	12	—	15
Container Leasing	—	3	8	11
Leveraged-Lease Brokerage	1	5	—	6
Venture Capital Investment	—	1	—	1
Total	259	28	10	297

*Located at 18 of the Savings/Lending sites included above. **Includes 32 franchised offices.

Container leasing was one of four Genstar financial service operations to generate record earnings in 1983. The fleet of shipping containers doubled in size during the year, to the equivalent of more than 50,000 of these 20-foot units.

Over the past several years, Genstar has established a more stable base of earnings by increasing its involvement in financial services, an area that offers substantial growth opportunities yet is less cyclical than many of the company's other businesses.

That strategy proved sound in 1983, when operating income from financial services rose more than 75 percent. This followed a 60 percent increase the year before.

Much of 1983's gain came from sales of venture capital investments, which were the highest since Genstar entered that business 13 years ago. In particular, significant income was generated by the sale of 1.5 million shares of Apollo Computer Inc., representing slightly less than half of Genstar's holdings in that company. Substantial gains were also realized on sales of some of its investments in Dionex Corporation, Hybritech Inc., LSI Logic Corporation, and Activision, Inc. Genstar's venture capital operation purchases equity positions in promising young companies that need capital to reach their full potential, and the portfolio included holdings in more than 50 companies at the end of 1983. Although these shares have a book value of about $52 million, their value at year-end was estimated to be in excess of $220 million.

Three other financial service businesses also enjoyed record earnings, including the electronic equipment rental and mortgage banking companies which have reported increases every year since their acquisitions in 1978 and 1979, respectively.

Rentals of electronic test and measurement equipment again benefited from rising expenditures for research and development by the aerospace, defense, and electronics industries. To meet demand, additional investments were made in rental inventory during 1983, and fixed assets including nearly 20,000 pieces of major equipment, increased to $73 million.

The mortgage banking unit generally realizes its income from originating or purchasing mortgages and reselling them at a profit to investors and from fees for servicing mortgages on

behalf of those buyers. In 1983, however, substantial additional profits were generated by selling about half of the loan servicing portfolio. That portfolio at year-end totaled approximately $2.7 billion, compared to $4.4 billion at the end of 1982.

Genstar's container leasing business, begun in 1981, also reported record earnings. The growth was particularly meaningful since, unlike in 1982, results included no profits from the sale of tax benefits associated with the purchase of new containers. Economic recovery in the U.S. contributed to good gains in trans-Pacific shipments to North America, and the company continued to expand this operation. The container fleet more than doubled during the year, to over 50,000 TEUs (twenty-foot equivalent units). New offices were also opened in London, Rotterdam, and Singapore.

Only a few of Genstar's U.S. financial service businesses experienced difficulties in 1983. The leveraged-lease brokerage operation reported a loss when a change in U.S. tax law eliminated tax benefit transfers in most industries. These transactions had been a significant source of income in 1982. Also, the corporation sold its Northern California title insurance and escrow company which, unlike other financial service ventures, had proven to be an extremely cyclical business.

In Canada, operating performance continued to improve at Genstar's largest financial service company, Canada Permanent Mortgage Corporation. Acquired in 1981 at a cost of $288 million, The Permanent benefited from better management of its intermediary assets, from advanced new data systems for handling corporate trust accounts, and from improved real estate resale markets. The contribution to consolidated Genstar earnings, however, was essentially unchanged from a year ago because of higher loan loss provisions in 1983 and a more adverse effect than in 1982 from amortizing adjustments to assets and liabilities made at the time of acquisition. The latter primarily involved adjusting the book value of intermediary assets and liabilities to reflect market value when The Permanent was acquired.

The Permanent's intermediary or "banking" division accepts demand and term deposits from the public and invests them in mortgages, personal and commercial loans, and securities. During the year, several new deposit and loan instruments were introduced, and intensified marketing efforts were directed toward obtaining more industrial, commercial and investment mortgage business. The Permanent also began offering "any branch" banking, permitting customers to conduct business at more than 100 branches across Canada. Because of such efforts, the portfolio of loans and other assets increased to $6.5 billion at the end of 1983, up a healthy 12 percent from $5.9 billion a year ago. Moreover, a two-year effort

New deposit and loan plans contributed to asset growth and better margins at The Permanent, Genstar's largest financial service subsidiary.

to improve the matching of maturities and types of assets with those of deposits eliminated the mismatch that had negatively affected spreads between interest paid on deposits and interest earned on assets. As a consequence, the average spread or margin increased to 1.94 percent in 1983 from 1.61 percent the year before, and investment income rose by a third. This was more than offset, however, when loan loss provisions were increased from $7.5 million a year ago to nearly $33 million following an in-depth review of the portfolio.

The Permanent's trust division reported higher operating earnings from the fees and commissions it collects for a variety of fiduciary services. Corporate fees rose when the company's new computerized pension fund management system helped increase pension assets under administration to $3.7 billion, nearly double the amount in 1982. In addition, personal trust fees more than doubled after four new individual investment programs were introduced during the year.

The greatest improvement in operating income occurred in The Permanent's real estate brokerage division, which had experienced a loss in 1982. A revival in Canada's resale housing markets, improved internal cost controls, and increased concentration on industrial, commercial and investment property generated substantial income on the largest volume of sales in this division's history. This unit also benefited from a growing corporate program that handled in excess of 1,000 employee relocations for 83 companies during the year.

In 1984, it is unlikely that record sales of venture capital investments can be repeated, and overall returns from financial services will be reduced accordingly. All other major financial service operations, however, are expected to perform at or above 1983's excellent level.

Financial Review

Financial Summary
For the five years ended December 31
(millions of Canadian dollars)

	1983	1982	1981	1980	1979
Revenues	$1,826.7	$1,760.2	$2,145.9	$2,310.4	$1,264.6
Operating income	252.0	24.5	242.4	335.5	255.3
Income (Loss) before income taxes	100.0	(184.7)	72.4	197.2	190.1
Net income (loss)	103.0	(84.3)	93.8	157.9	126.5
Per Common Share					
Net income (loss)					
Canadian method					
Basic	$ 2.83	$ (3.36)	$ 2.40	$ 4.92	$ 4.31
Fully diluted	2.72	(3.36)	2.34	4.48	4.06
United States method					
Primary	2.72	(3.36)	2.37	4.54	4.26
Fully diluted	2.72	(3.36)	2.34	4.48	4.08
Dividends	0.65	0.90	1.80	1.65	1.25
Book value	22.97	20.89	24.31	23.97	19.29
Performance Measurement					
Return on net assets (pre-tax)	12.4%	1.1%	9.9%	16.1%	17.9%
Return on common equity	12.3%	(16.0%)	9.8%	19.4%	22.2%
Capitalization Ratios					
Total debt to equity	53:47	61:39	57:43	49:51	62:38
Long-term debt to equity	44:56	47:53	40:60	40:60	53:47
Capitalization					
Total assets	$2,348.8	$2,660.3	$2,868.2	$2,467.5	$2,401.4
Deferred income taxes	24.5	82.1	167.8	181.3	183.9
Long-term debt	736.8	773.6	657.6	639.6	729.4
Redeemable preferred shares	120.0	120.0	120.0	120.0	120.0
Convertible redeemable preferred shares	104.9	106.9	111.1	113.5	8.6
Common shares and contributed surplus	304.3	296.8	291.7	285.1	186.1
Retained earnings	383.1	316.8	448.0	429.4	341.4
Other Statistics					
(millions except employees)					
Working capital	$ 176.4	$ 91.7	$ 136.7	$ 404.9	$ 305.0
Net funds generated (required) by operating activities	$ 228.0	$ (37.7)	$ (0.1)	$ 137.3	$ 267.0
Capital expenditures	$ 40.3	$ 66.2	$ 147.5	$ 172.2	$ 106.1
Common shares outstanding					
Actual	31.4	30.9	30.6	30.2	27.4
Average	31.2	30.7	30.5	28.5	27.3
Average number of employees	15,175	17,788	20,225	17,525	19,850

Consolidated Highlights

Net income was $103.0 million ($2.83 per common share) in 1983, compared to a loss of $84.3 million ($3.36 per common share) in 1982. Net income was $93.8 million ($2.40 per common share) in 1981. Per share amounts are based on average outstanding common shares of 31.2 million in 1983, 30.7 million in 1982, and 30.5 million in 1981.

Following are highlights of 1983 operating results in comparison to 1982 and 1981:

1983 Compared to 1982

Revenues increased overall by 4% as increases in the Land and Real Estate Development and Financial Services categories were partially offset by a decrease in the Building Materials and Services categories. All operations in Western Canada, particularly in Alberta, continued to be faced with depressed economic conditions.

Gross profit margins improved 11 percentage points, and selling, general and administrative expenses decreased by 8%. These improvements reflect increased productivity, a 15% decrease in the average number of employees, and larger land and venture capital sales.

Financing costs were reduced by 27%, of which 10% was the result of lower debt and 17% was the result of lower interest rates.

1982 Compared to 1981

1982 revenues of $1.8 billion were 18% lower than 1981. All industrial categories, except Financial Services and Marine Services and Other Operations, were adversely affected by the general recession and reported significant reductions in revenues.

Gross profit for 1982 was 17% compared to 27% in the preceding year. The decrease reflected depressed operating conditions in 1982. Major gross profit reductions from 1981 included:

- $95 million of costs associated with plant closings and the write-down of certain landholdings and joint venture investments. These costs reduced 1982 gross profit by 5.4%.
- $105 million because of the reduced sales volume.
- $80 million because of the reduced gross profit percentage.

Cost control programs and the streamlining of operations helped to offset lower 1982 gross profit margins as selling, general and administrative expenses were reduced by $54 million, or nearly 21%, from the preceding year.

Financing costs increased 23% during 1982 because of higher average variable-rate borrowings.

Operations

The following discussion of major factors affecting the operating income of each industrial category during the three years ended December 31, 1983, should be read in conjunction with "Results by Industrial Category," included on pages 32 and 33 of this report.

Cement and Lime

	1983	1982	1981
Sales Volumes	(thousands of tons)		
Cement			
Canada	1,407	1,420	1,898
United States	524	552	804
Total	1,931	1,972	2,702
Lime Products			
United States	476	526	666
Production Capacity Utilization			
Cement			
Canada	46%	46%	62%
United States	44	46	64
Lime Products			
United States	45	41	52

The decrease in volumes and resulting lower utilization rates of production facilities is a direct result of the unfavorable economic conditions affecting the western regions of Canada and the United States in 1983 and 1982.

All production facilities have operated on a reduced scale in response to an excess of production capacity. One of the two cement plants in California was not operated in 1983 as the product could be more efficiently manufactured from one plant.

Gross profit margins improved slightly in 1983 over 1982, but in both years the margins were below 1981 levels. The high fixed manufacturing cost content of these facilities requires utilization in excess of present levels to achieve historic returns.

Concrete, Aggregates and Construction Services

	1983	1982	1981
Sales Volumes of Major Products		(millions)	
Concrete (cubic yards)	**1.4**	1.6	2.2
Aggregates (tons)	**20.6**	20.6	24.4
Concrete blocks (standard units)	**12.4**	14.3	21.4

The general decline in the construction industry in Western Canada was the cause for the decrease in volumes year over year. Volume in the United States was higher than in the previous years, however, benefiting from a strong regional economy in and around Baltimore, Maryland, and from new productive capacity. A return to historic volume levels is dependent on the Alberta economy improving, as the company has a substantial presence in that province. Certain marginal operations in Eastern Canada and the United States were disposed of in 1983.

Gross profit margins improved in 1983 over 1982 primarily as a result of new automated production facilities in the U.S., but they remained below 1981 levels. Although margins are volume sensitive, the more significant factor in 1982 was that cost increases could not be passed on to customers in Western Canada.

Heavy construction activities were substantially completed in 1983, and anticipated losses have been accrued. Any recovery from the substantial claims which have been filed with project owners will be included in income when received in the future.

Building Supplies

	1983	1982	1981
Sales Volumes of Major Products			
Gypsum products (billions of square feet)	**1.4**	1.2	1.4
Roofing (thousands of tons)	**649**	657	698
Number of wholesale supply centers at year-end	**16**	17	39
Production Capacity Utilization			
Gypsum products	**73%**	64%	70%
Roofing	**52%**	50%	49%

The building supplies category experienced significant changes as 1983 progressed. Gypsum wallboard volumes began to increase, idle capacity was started up, and product prices rose. Roofing activities, on the other hand, remained depressed with low prices and significant excess production capacity. The growing waste management and resource recovery operations are included in this category. In 1983, these operations were profitable after small losses in 1982 and 1981.

The improved gross margins in 1983 were principally price related. Gypsum margins improved 50% in 1983 over 1982 levels. Roofing margins did not improve, however, as prices remained depressed. 1982 margins were adversely affected by $20 million of costs of closing excess facilities.

Marine Services and Other Operations

Revenues in 1983 were 22% below those of both 1982 and 1981, as reduced shipyard work and lower revenues from long-distance international towing accounted for most of the decline. Revenues from domestic towing services were 8% higher than in 1982.

Gross profit margin decreased to 18% in 1983 from 21% in 1982 and from 32% in 1981, partially because of lower marine revenues, but also because of losses from the company's investment in a chemical manufacturing joint venture. Genstar's share of the venture's loss was $3.5 million in 1983, compared to $0.7 million in 1982 and income of $3.4 million in 1981.

Land and Real Estate Development

	1983	1982	1981
Sales Volumes			
Residential Units			
Canada	**944**	1,259	1,684
United States	**1,061**	1,190	1,729
Total	**2,005**	2,449	3,413
Residential Building Lots			
Canada	**1,761**	998	2,213
United States	**1,809**	386	390
Total	**3,570**	1,384	2,603
Land (acres)			
Canada	**1,321**	746	2,638
United States	**1,310**	348	832
Total	**2,631**	1,094	3,470

The decrease in sales volume of residential units in 1983 reflects the company's policy of building to specific market demand. In 1982, the decrease was principally the result of poor economic conditions. The volume increases in both building lot and land acreage sales were the result of an aggressive effort to reduce inventories of land, some of which had been consolidated in 1982 upon the failure of several partnerships in the United States.

Results in 1983 include the sale of a large shopping center complex in Southern Ontario and the sale of a major land tract in Southern California. In 1982, reserves of $63 million were charged to income. These reserves reduced the carrying value of certain landholdings and real estate joint ventures.

Financial Services

Revenues of the financial services category consist principally of the equity income of Genstar Financial Corporation and some sales of venture capital investments. Revenues in 1983 were $159 million, compared to $99 million in 1982 and $67 million in 1981. The increases are the result of improvements in the operations of most financial services subsidiaries and the high level of venture capital sales in 1982 and 1983.

Operating income was $148 million in 1983, compared to $85 million in 1982 and $52 million in 1981, including $88 million, $24 million and $29 million, respectively, of operating income from venture capital sales. A portion of Genstar's shareholdings of Apollo Computer Inc., Activision Inc., Masstor Systems Corporation and LSI Logic Corporation were sold in 1983. At the end of 1983, the value of the remaining investment in these publicly traded shares was $183 million, compared to Genstar's cost of approximately $11 million.

Operating performance of Canada Permanent Mortgage Corporation was much improved in 1983, but the contribution to consolidated operating income was approximately the same as in 1982. Loan loss provisions and the effect of amortizing acquisition adjustments to assets and liabilities were greater in 1983 than in 1982 and offset the improvement in operating performance. The adjustments resulted from the restatement of the assets and liabilities of Canada Permanent to market value at the time of acquisition. Accounting rules require that the adjustment be amortized over the life of the respective assets and liabilities. Canada Permanent was acquired in August 1981, and income for only a part of that year was included in consolidated results.

Mortgage banking, electronic test instrument rental and container leasing operations all produced increased operating income in each of the last three years. In 1983, the mortgage banking division benefited from the sale of $1.8 billion, or 42 percent, of its mortgage servicing portfolio. The other two companies are growth oriented and have increased in size significantly in the last two years.

The financial position and results of operations of the financial services subsidiaries included in Genstar Financial Corporation are summarized in Note 5 to the consolidated financial statements.

Financing Costs

	1983	1982	1981
Interest Expense	(millions of dollars)		
Long-term debt	88	92	86
Short-term debt	64	117	84
	$152	$209	$170

Total interest expense decreased by 27% in 1983, and short-term interest decreased by 45%. Both short-term and total interest expense had increased substantially in 1982. The effect of the $273 million reduction in short-term debt was further enhanced by a decline in the company's borrowing rates. Through the use of bankers acceptances and LIBOR (London Inter-Bank Offering Rate) instruments, the company was able to keep its effective short-term cost of funds rate below bank prime lending rates.

At December 31, 1983, total borrowings were $1,056 million, of which $570 million or 54% was at variable interest rates. Total debt at the end of 1982 was $1,366 million, of which $843 million or 62% was at variable interest rates.

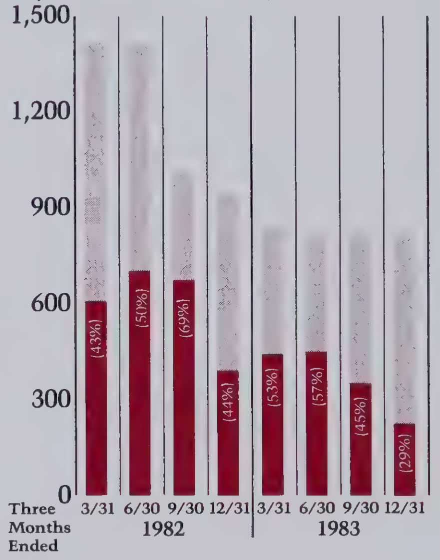
Bank Lines of Credit

Average short-term borrowings were $420 million in 1983, down 36% from $660 million in 1982. Peak short-term borrowings were $480 million in 1983, well below the $750 million peak in 1982.

The company has lines of credit with all major Canadian banks. At December 31, 1983, $537 million of Canadian bank lines were committed to July 1985, and the remaining $237 million were demand. In addition, the company had a committed bank line of $37 million at December 31, 1983, with a consortium of European banks.

The reduction in total bank lines of credit reflects the company's declining need for bank credit during 1983. As can be seen on the accompanying chart, the company's utilization of credit facilities has declined more than the available lines of credit.

Bank Lines of Credit
(millions of dollars)
☐ Total Credit Available
■ Average Short-Term Borrowings (% of Credit Utilized)



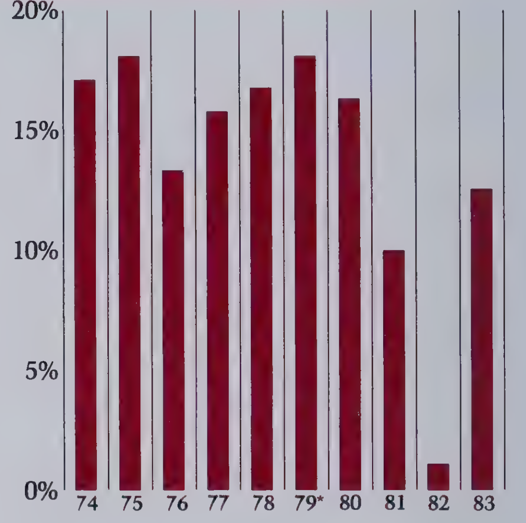
Performance Measurement

The company places great emphasis on the importance of measuring operating performance in order to help determine the business investments which will ensure a strong and viable future. Both internally and externally, various measures of performance have been used to compare efficiency and profitability between divisions of Genstar and between Genstar and its competition.

The measure of performance that the company has used both externally and internally is return on net assets (RONA), a measure of operating income as a ratio of capital employed.

The accompanying graph indicates that performance in 1983 was much improved from the recent past, but was below the levels achieved during the 1970's. In view of the low rate of inflation in 1983, the company believes that the quality of performance in 1983 was better than in the past several years. RONA was 12.4% in 1983, up significantly from 1.1% in 1982 and 9.9% in 1981.

Return on Net Assets (Pre-tax)



*excluding the net assets and operations of The Flintkote Company which were acquired effective December 31, 1979.

Return on common shareholders' equity was 12.3% in 1983, compared to (16.0)% in 1982 and 9.8% in 1981.

Liquidity

The company's success in reducing total debt by more than $300 million during 1983 represents a major improvement in the company's financial strength. Lower interest costs contributed directly to current earnings improvement. Moreover, lower debt levels permit greater flexibility in meeting financing requirements for operations, capital improvements and expansion, which contribute to future income. The company was able to achieve this reduction without the sale of any of its strategic assets.

The reduction in debt was principally the result of improved earnings, reduced investment in receivables and inventories, and the completion of the financial services reorganization begun in 1982.

Operating activities generated $228 million through:

• improved income levels in most operations. Sales of venture capital investments were a significant source of funds.

• aggressive marketing of inventories, particularly properties acquired from joint ventures which were consolidated during 1982. Many of those properties had been heavily leveraged.

• careful monitoring of levels of receivables and other current account balances.

Changes in turnover statistics reflect the results of these actions:

	1983	1982	1981
Current Assets		(days)	
Accounts receivable turnover	52	58	64
Inventory turnover	137	164	162

During 1983, the reorganization of the financial services businesses under a new holding company called Genstar Financial Corporation (GFC) was substantially completed. GFC had been formed in late 1982, consisting of most of the company's financial services subsidiaries, including Canada Permanent Mortgage Corporation. One of the company's intentions in creating GFC was to make this group of subsidiaries into a free-standing, self-financing operation. This aim was achieved in 1983, when GFC was able to repay most of the remaining intercorporate debt to the company from its own resources.

Outlook

The company expects some further improvement in liquidity as operations respond to the economic recovery. Several specific sources should assure the company of an adequate flow of funds:

- Operations should continue to generate a positive flow of funds, although future inventory reductions will not be as large as in 1983.
- Sales of venture capital investments should also provide substantial funds. Market value of the company's investments in publicly traded companies exceeded cost by more than $170 million at December 31, 1983.
- Genstar Financial Corporation should continue to generate increased income. GFC will distribute approximately half of its income to the company each year.
- As operations and debt levels improve, the company's financing flexibility, through the issue of either debt or equity, should improve. In anticipation of this possibility, the company has filed a "shelf" registration with the U.S. Securities and Exchange Commission for the potential issue, by November 1985, of as many as 3,000,000 common shares.

Capitalization

The principal components of the company's capital base are borrowed funds, deferred revenue and income taxes and shareholders' equity. The ratio of total debt to equity was 53:47 at the end of 1983, a significant improvement from 61:39 at the end of 1982 and 57:43 at the end of 1981. The company believes that in times of low actual and anticipated inflation rates, the amount of debt in the capital structure should be lower than the present level. As a consequence, in November 1983, the company filed a preliminary registration statement with the U.S. Securities and Exchange Commission for the issue of up to 3,000,000 common shares in 1984 and 1985. The required information has also been filed to permit Genstar to issue additional shares in Canada on short notice.

The Securities and Exchange Commission requires that capital stock with mandatory redemption provisions be reported separately from other elements of shareholders' equity and be considered as debt in computing balance sheet ratios. This approach ignores the respective rights of the holders of these shares and, in particular, holders of convertible shares. Using these guidelines, Genstar's total debt-to-equity ratios would be 65:35 in 1983, 72:28 in 1982, and 68:32 in 1981.

Income Tax Considerations for U.S. Individual Shareholders

Dividends are paid in Canadian and U.S. dollars and other currencies depending upon the residence of the shareholder. Dividends paid to United States resident shareholders in 1983 were subject to a 15% withholding tax. Generally, dividends received by United States citizens or residents are subject to U.S. income tax on the amount of the dividend, but either a credit or a deduction for Canadian tax withheld may be claimed. Because Genstar is not a United States domestic corporation, the partial exclusion of dividends received by individuals from domestic corporations is not available.

Share Capital

Genstar's voting share capital consists of 31.4 million common shares and several series of preference shares. At December 31, 1983, 88% of the voting shares were registered, and the balance were in bearer form.

Below is a summary of shareholdings of the company, which shows that the number of shareholders declined during 1983 and that Canadian resident shareholders owned approximately 44% of voting shares and represented 76% of Genstar's registered shareholders.

Shareholdings

	1983				1982			
	Shareholders		Shareholdings		Shareholders		Shareholdings	
	Number	%	Shares (millions)	%	Number	%	Shares (millions)	%
Common & Voting Preferred								
Canada	9,171	76	15.5	44	11,416	77	15.4	44
United States	2,819	23	10.8	31	3,341	22	9.8	28
Bearer	*		4.4	12	*		4.7	14
Other	158	1	4.5	13	176	1	4.8	14
	12,148	100	35.2	100	14,933	100	34.7	100

*The ownership of bearer shares is unknown.

Common share trading volume increased in total and in the U.S. markets and decreased in the Canadian markets. Following is a five-year summary of common stock trading volume and price information:

Common Stock	1983	1982	1981	1980	1979
Trading volume (millions of shares)					
Canada	6.8	8.9	5.0	6.8	4.8
United States	15.3	11.3	7.3	5.6	1.1
Other	0.2	0.1	0.2	0.9	0.9
	22.3	20.3	12.5	13.3	6.8
Price range*	\$38¾-20¼	\$24¾-8⅞	\$42¾-18⅜	\$47-25	\$27¾-18⅜
Closing price,* December 31	\$31.00	\$20.25	\$23.38	\$38.63	\$25.87
Book Value, December 31	\$22.97	\$20.89	\$24.31	\$23.97	\$19.29

*Toronto Stock Exchange

Quarterly trading volume and price range information for 1983 and 1982 is included in Note 18 to the consolidated financial statements. Common shares are listed on the New York, Pacific, Toronto, Montreal, Alberta and Vancouver stock exchanges and the Brussels, Antwerp, Zurich, Geneva, Basel and Luxembourg bourses. Four series of preferred shares are also traded publicly.

Joint Ventures

As described in Note 3 to the financial statements, the company carries out substantial business through corporate and unincorporated joint ventures, in which ownership interests range from 12.5% to 50%. The partnerships had total assets of \$625 million at the end of 1983, and Genstar had invested \$49 million for its ownership interests.

Total assets of the joint ventures declined by \$127 million or 17% during 1983. This decline was primarily due to the company's efforts to dispose of investments which perform below expectations. Only \$30 million of the decline in 1983 is the result of the consolidation of joint ventures for which the company assumed operating control. In 1982, the company was required to assume control of joint ventures which had approximately \$160 million in assets.

The table entitled Joint Ventures indicates that both the land and real estate and the manufacturing and construction groups of joint ventures operated at losses in both 1983 and 1982. As markets improved, especially in the United States, and financing costs declined, the company's share of losses for land and real estate joint ventures was reduced by two-thirds from that of 1982. The company's losses from manufacturing and construction joint ventures increased slightly from the 1982 level, however. This was principally caused by a large hydroelectric construction project in British Columbia which has experienced considerable cost overruns. The venture, in which Genstar has less than a 20% interest, has now been substantially completed, and no significant further losses are anticipated.

Joint Ventures	Land and Real Estate 1983	1982	Manufacturing, Construction and Other 1983	1982	Total 1983	1982
	(millions of dollars)					
Financial Position						
Assets						
Accounts receivable and other	27.8	68.9	94.2	100.2	122.0	169.1
Inventories	448.4	536.0	12.5	11.8	460.9	547.8
Fixed assets	5.9	—	35.7	34.6	41.6	34.6
	$482.1	$ 604.9	$ 142.4	$ 146.6	$ 624.5	$ 751.5
Liabilities and Equity						
Short-term borrowings and construction loans	257.0	337.4	63.9	42.5	320.9	379.9
Accounts payable	33.7	41.4	44.6	64.3	78.3	105.7
Long-term debt	112.4	132.2	50.7	39.9	163.1	172.1
Equity and advances by other partners	32.6	26.8	(19.4)	(9.7)	13.2	17.1
Equity and advances by the company	46.4	67.1	2.6	9.6	49.0	76.7
	$ 482.1	$ 604.9	$ 142.4	$ 146.6	$ 624.5	$ 751.5
Operations						
Revenues	144.3	163.9	172.3	172.7	316.6	336.6
Expenses	155.8	217.6	224.5	224.9	380.3	442.5
Loss before income taxes	$ (11.5)	$ (53.7)	$ (52.2)	$ (52.2)	$ (63.7)	$(105.9)
Genstar's share of loss before income taxes	$ (13.0)	$ (39.2)	$ (9.8)	$ (7.1)	$ (22.8)	$ (46.3)

Inflation

As in prior years, Genstar has responded to the current economic environment with aggressive productivity and asset/liability management. These actions were aimed at improving future returns by disposing of marginal assets and, accordingly, were compatible with actions necessary to reduce financial exposure to the effects of future inflation. Genstar does not use discrete internal inflation measurements but, instead, uses historical basis forecasting and strategic planning procedures to address all anticipated future business effects, including those of inflation.

Inflation-Adjusted Results

The information included in Note 19 to the consolidated financial statements restates certain balance sheet and statement of income items for the effects of inflation using methods prescribed by financial accounting authorities in Canada and the United States.

After providing for preferred share dividends, the current cost income per share was $0.07 in 1983, compared to a loss of $6.65 in 1982. The per share amounts do not include the gain resulting from the decline in purchasing power of net liabilities which amounted to $53 million or $1.70 per common share in 1983 or the Canadian "financing adjustment" which amounted to a further $35 million or $1.11 per common share in 1983. These items represent the portion of inflation borne by lenders and not by Genstar shareholders. In our view, these amounts represent a reduction in financing costs and should be netted against interest expense in calculating inflation-adjusted debt cost. Income adjusted for the effects of inflation would be higher than historic cost income in the 1981-83 period shown if the effects of the holding gain and financing adjustment were included.

Inventories and fixed assets on a current cost basis of $2.1 billion in 1983 and $2.4 billion in 1982 were 49.0% and 46.5% higher than the respective historic cost amounts. The slight increase in the inflationary value of assets in 1983 is primarily related to the specific price changes in the company's assets, which were 28.7% lower than general inflation in 1982 but were equivalent to general inflation in 1983. This indicates that the current cost of the company's inventories and fixed assets did not increase in value in line with the 5.8% average registered by the CPI. Although part of this difference is illusory as it results from applying a Canadian index to United States assets when 1983 general inflation was only 3.2% in that country, the balance is indicative of a slightly higher cost to maintain "operating capability."

Capital Stock and Retained Earnings on a current cost basis were equivalent to 174% of historic cost amounts, down from 185% at the end of 1982. Including the effects of all convertible shares and debentures, current cost equity per common share was $52.69 in 1983, compared to $52.78 in 1982. This large unrealized appreciation supports the underlying strength of the company's assets.

INDUSTRIAL CATEGORIES

Equity Income
Included in third party revenues is the company's share of the income or loss of joint ventures, subsidiaries and investments accounted for on the equity basis. In 1983, $14 million of such losses are included in the revenues of the land and real estate development category, compared to $44 million in 1982 and $10 million of income in 1981. Revenues of the financial services category include $91 million of equity income in 1983, compared to $58 million a year earlier, and $21 million in 1981, and $4 million of losses are included in the 1983 revenues of the concrete, aggregates and construction services category, compared to $5 million in 1982 and $2 million in 1981.

Net Operating Assets
Net operating assets are calculated by deducting non-interest bearing liabilities, except for income taxes, from the identifiable assets of each category. General corporate assets are allocated to each category.

Pre-tax Operating Return on Net Assets
Pre-tax operating return on net assets is the performance measurement obtained by dividing income before interest and income tax expense by net operating assets.

Identifiable Assets by Industrial Category (millions of dollars)	1983	1982	1981	1980	1979
Cement and lime	**498.2**	526.1	548.3	515.1	514.3
Concrete, aggregates and construction	**268.7**	330.9	428.9	403.2	476.5
Building supplies	**290.8**	285.0	333.9	363.7	339.5
Marine services and other operations	**101.1**	113.2	132.0	156.8	150.6
Land and real estate development	**608.6**	788.2	887.3	777.8	722.4
Financial services	**537.3**	555.5	479.9	198.6	162.3
General corporate	**44.1**	61.4	57.9	52.3	35.8
Total	**$2,348.8**	$2,660.3	$2,868.2	$2,467.5	$2,401.4

Capital Expenditures by Industrial Category (millions of dollars)	1983	1982	1981	1980	1979
Cement and lime	**6.5**	21.7	58.6	90.2	53.2
Concrete, aggregates and construction	**10.7**	13.2	45.1	32.0	31.4
Building supplies	**21.7**	20.4	29.3	34.5	4.2
Marine services	**.3**	3.5	5.7	10.7	9.2
Other	**1.1**	7.4	8.8	4.8	8.1
Total	**$40.3**	$66.2	$147.5	$172.2	$106.1

Financial Data by Geographic Area

(millions of dollars)	1983	1982	1981	1980	1979
Revenues					
Canada and other	720.2	845.0	1,068.2	980.3	961.0
United States	1,106.5	915.2	1,077.7	1,330.1	303.6
Total	$1,826.7	$1,760.2	$2,145.9	$2,310.4	$1,264.6
Operating Income					
Canada and other	116.5	123.3	222.1	170.6	178.7
United States	135.5	(98.8)	20.3	164.9	76.6
Total	$ 252.0	$ 24.5	$ 242.4	$ 335.5	$ 255.3
Identifiable Assets					
Canada and other	1,130.4	1,246.5	1,470.9	1,074.4	1,066.3
United States	1,218.4	1,413.8	1,397.3	1,393.1	1,335.1
Total	$2,348.8	$2,660.3	$2,868.2	$2,467.5	$2,401.4

Results by Industrial Category

For the five years ended December 31, 1983
(millions of Canadian dollars)

		Revenues Third Party	Revenues Inter-Category	Total
Cement and Lime				
Manufacture of normal portland cement and oil well, high early-strength, masonry, sulphate-resistant, potash and other specialty cements. Manufacture of high-calcium and dolomitic quicklime and hydrated lime, and various crushed limestone products.	1983	196.2	29.4	**225.6**
	1982	196.6	36.3	**232.9**
	1981	270.5	42.7	**313.2**
	1980	315.2	45.4	**360.6**
	1979	141.3	40.8	**182.1**
Concrete, Aggregates and Construction Services				
Production of ready-mix concrete; precast and prestressed concrete components; concrete blocks, pipe and railway ties; bituminous concrete/asphalt; calcium carbonate products; and home repair products. Production of classified sand, gravel, standard and lightweight aggregates, crushed stone and gypsum rock. Municipal and real estate subdivision servicing and heavy construction.	1983	480.9	6.2	**487.1**
	1982	567.6	7.5	**575.1**
	1981	612.9	55.2	**668.1**
	1980	557.2	52.1	**609.3**
	1979	398.4	61.8	**460.2**
Building Supplies				
Manufacture of gypsum wallboard; roofing products, including asphalt shingles and rolls, liquid tar-based coating, felt and paperboard; asphaltic adhesives; recycled rubber for asphalt paving and rubber products; concrete admixtures. Wholesaling and distribution of construction materials to builders; sanitary landfilling and methane gas recovery; sludge disposal.	1983	452.1	1.2	**453.3**
	1982	472.3	1.6	**473.9**
	1981	574.1	1.2	**575.3**
	1980	606.6	1.8	**608.4**
	1979	39.9	—	**39.9**
Marine Services and Other Operations				
Tug and barge transportation of logs, wood chips, pulp and paper, lumber, limerock, aggregates, petroleum products, chemicals, trucks, containers, railway cars and large heavy-lift modular cargo. Shipbuilding and repairs; salvage; ferrying; berthing; lighterage; pollution control. Chemical and fertilizer manufacturing, and sale of commercial revenue properties in 1979.	1983	119.1	3.0	**122.1**
	1982	154.4	1.7	**156.1**
	1981	153.7	1.7	**155.4**
	1980	167.1	1.7	**168.8**
	1979	193.2	1.5	**194.7**
Land and Real Estate Development				
Development of residential, commercial and industrial land. Development and construction of single-family homes, duplexes, townhouses, shopping centers and warehouses; real estate joint-venture financing.	1983	419.4	.1	**419.5**
	1982	270.9	9.4	**280.3**
	1981	467.4	2.9	**470.3**
	1980	604.8	—	**604.8**
	1979	478.1	—	**478.1**
Financial Services				
Retail, commercial and mortgage banking; mortgage lending; marine financing; personal, pension and corporate trust; venture capital investment; capital equipment lease and residential real estate sales brokerage; rental of transportation containers and electronic test and measurement equipment; property-casualty insurance.	1983	159.0	—	**159.0**
	1982	98.4	.5	**98.9**
	1981	67.3	—	**67.3**
	1980	59.5	1.1	**60.6**
	1979	13.7	—	**13.7**
Corporate and Unallocated Items				
Certain corporate revenues, cost of sales, depreciation expenses and net assets are allocated to the industrial categories.	1983	—	—	**—**
	1982	—	—	**—**
	1981	—	—	**—**
	1980	—	—	**—**
	1979	—	—	**—**
Consolidated				
Inter-category revenues are at market prices and must be deducted from cost of sales and total costs and expenses (on adjoining page) to calculate costs and expenses in the consolidated statements of income.	1983	1,826.7	39.9	**1,866.6**
	1982	1,760.2	57.0	**1,817.2**
	1981	2,145.9	103.7	**2,249.6**
	1980	2,310.4	102.1	**2,412.5**
	1979	1,264.6	104.1	**1,368.7**

	Costs and Expenses							
Cost of Sales	Selling, General and Administrative	Depreciation Depletion and Amortization	Total	**Operating Income**	Net Assets	**Pre-tax Return on Net Assets** (percent)		
157.5	21.5	26.9	205.9	**19.7**	486.2	**4.1**	. . . .	1983
164.7	23.8	24.3	212.8	**20.1**	488.0	**4.1**	. . . .	1982
206.6	25.2	22.5	254.3	**58.9**	507.0	**11.6**	. . . .	1981
258.7	28.5	22.6	309.8	**50.8**	466.6	**10.9**	. . . .	1980
130.4	11.1	7.1	148.6	**33.5**	252.5	**13.3**	. . . .	1979
400.1	44.5	17.5	462.1	**25.0**	202.4	**12.4**	. . . .	1983
481.1	43.8	18.9	543.8	**31.3**	239.0	**13.1**	. . . .	1982
517.2	53.6	27.8	598.6	**69.5**	297.5	**23.4**	. . . .	1981
487.1	44.8	27.4	559.3	**50.0**	325.3	**15.4**	. . . .	1980
374.9	27.0	18.5	420.4	**39.8**	196.4	**20.3**	. . . .	1979
386.5	36.6	15.5	438.6	**14.7**	258.4	**5.7**	. . . .	1983
453.8	45.4	17.5	516.7	**(42.8)**	231.3	**(18.5)**	. . . .	1982
528.7	58.7	16.9	604.3	**(29.0)**	273.2	**(10.6)**	. . . .	1981
527.0	51.0	14.0	592.0	**16.4**	294.1	**5.6**	. . . .	1980
24.3	3.1	1.0	28.4	**11.5**	55.1	**20.9**	. . . .	1979
100.2	7.4	7.6	115.2	**6.9**	79.2	**8.7**	. . . .	1983
123.9	7.9	7.4	139.2	**16.9**	94.9	**17.8**	. . . .	1982
105.2	8.3	8.4	121.9	**33.5**	102.5	**32.7**	. . . .	1981
118.2	9.7	10.4	138.3	**30.5**	134.4	**22.7**	. . . .	1980
135.6	8.9	10.6	155.1	**39.6**	135.8	**29.2**	. . . .	1979
304.7	46.5	1.9	353.1	**66.4**	493.5	**13.5**	. . . .	1983
281.5	52.6	2.1	336.2	**(55.9)**	724.6	**(7.7)**	. . . .	1982
299.1	64.0	2.7	365.8	**104.5**	790.0	**13.2**	. . . .	1981
355.7	54.4	2.4	412.5	**192.3**	668.6	**28.8**	. . . .	1980
293.7	49.1	1.7	344.5	**133.6**	623.7	**21.4**	. . . .	1979
7.6	2.3	.9	10.8	**148.2**	514.4	**28.8**	. . . .	1983
12.0	1.7	.7	14.4	**84.5**	523.3	**16.1**	. . . .	1982
10.8	3.6	.5	14.9	**52.4**	468.1	**11.2**	. . . .	1981
30.7	3.0	.4	34.1	**26.5**	192.1	**13.8**	. . . .	1980
1.3	.9	.2	2.4	**11.3**	164.3	**6.9**	. . . .	1979
.5	28.4	—	28.9	**(28.9)**	—	**—**	. . . .	1983
.7	28.9	—	29.6	**(29.6)**	—	**—**	. . . .	1982
3.0	44.4	—	47.4	**(47.4)**	—	**—**	. . . .	1981
1.1	30.0	—	31.1	**(31.1)**	—	**—**	. . . .	1980
(2.9)	16.9	—	14.0	**(14.0)**	—	**—**	. . . .	1979
1,357.1	187.2	70.3	1,614.6	**252.0**	2,034.1	**12.4**	. . . .	1983
1,517.7	204.1	70.9	1,792.7	**24.5**	2,301.1	**1.1**	. . . .	1982
1,670.6	257.8	78.8	2,007.2	**242.4**	2,438.3	**9.9**	. . . .	1981
1,778.5	221.4	77.2	2,077.1	**335.4**	2,081.1	**16.1**	. . . .	1980
957.3	117.0	39.1	1,113.4	**255.3**	1,427.8*	**17.9***	. . . .	1979

*Excluding the net assets of The Flintkote Company which were acquired effective December 31, 1979.

Summary of Significant Accounting Policies

For the years ended December 31, 1983, 1982 and 1981

The following accounting policies conform with those generally accepted in both Canada and the United States.

Consolidation

Subsidiaries are consolidated either from the date of acquisition on the basis of purchase accounting or retroactively on the basis of pooling of interests accounting. Financial services subsidiaries are accounted for on the equity method because their financial structure and operations differ significantly from the company's other businesses.

Investments in joint ventures are accounted for on the equity method.

Foreign Exchange

Assets of subsidiaries for which the functional currency is the United States dollar and related liabilities are translated into Canadian dollars at the year-end rate of exchange, while revenues and expenses are translated at the average exchange rate for the year. Unrealized balance sheet translation amounts are maintained as a separate balance sheet account until such time as foreign currency amounts are realized in Canadian dollars. Amounts denominated in foreign currencies other than the United States dollar are translated at historical exchange rates for non-monetary items and at the year-end exchange rate for monetary items, with translation fluctuations included in income.

Inventories

Inventories are valued at the lower of cost or net realizable value. Cost of manufactured goods is determined principally at average on the first-in first-out basis and includes all direct overhead except depreciation. Cost of land and housing inventories is determined on a specific item basis and includes services such as roads, sewage and water systems on land under development.

Land inventories are those parcels which are expected to be sold within the five-year operating cycle of the land development business. Other parcels are classified as development land.

Investments

Portfolio securities are stated at the lower of cost or net realizable value.

Fixed Assets

Properties, plants and equipment are stated at cost. Expenditures for additions, improvements and renewals are capitalized and expenditures for maintenance and repairs are charged to income. When assets are sold or retired, their cost and accumulated depreciation or depletion are removed from the accounts and any gain or loss resulting from their disposal is included in income.

Depreciation of plants and equipment is provided by annual charges to income on the straight-line method based on estimated useful lives ranging from 20 to 40 years for plants and from 5 to 25 years for equipment. Mobile equipment depreciation is based on time utilization after allowing for estimated salvage value. Depletion of quarries and gravel deposits is calculated on the unit of extraction method.

Revenue Recognition

Revenues from the sale of manufactured products and housing units are recognized upon passage of title to the customer which generally coincides with their delivery and acceptance. Revenues from the sale of land are recognized in the period in which the transactions occur provided the earnings process is complete and collectibility of the proceeds is reasonably assured. Non-cash consideration from land and housing sales is adjusted to reflect the market value of the consideration.

Revenues from construction and shipbuilding contracts are recognized on the percentage of completion method and any losses are provided for as they become known. Claims for additional contract compensation are not recognized until resolved.

Deferred revenues result from the contribution of land to a partnership at a value in excess of cost, the sale of the future production from limestone deposits and the sale and leaseback, at a value in excess of cost, of mobile equipment. Income is recognized as sales are made to third parties in the cases of the land partnership and limestone deposits and over the term of the lease in the case of the sale and leaseback transaction.

CONSOLIDATED STATEMENTS OF INCOME

GENSTAR

For the years ended December 31, 1983, 1982 and 1981
(thousands of Canadian dollars)

	1983	1982	1981
Revenues			
Net sales and other revenue	1,743,047	1,707,768	2,129,628
Equity net income of Genstar Financial Corporation	83,691	52,459	16,294
	1,826,738	1,760,227	2,145,922
Costs and Expenses			
Cost of sales and services	1,317,167	1,460,662	1,566,885
Selling, general and administrative	187,219	204,148	257,856
Depreciation, depletion and amortization	70,314	70,896	78,781
	1,574,700	1,735,706	1,903,522
Operating Income	252,038	24,521	242,400
Financing Costs			
Interest on long-term debt	87,543	92,208	85,568
Other interest	64,455	117,009	84,400
	151,998	209,217	169,968
Income (Loss) Before Income Taxes	100,040	(184,696)	72,432
Provision for Income Taxes			
Current	54,100	(7,700)	(8,600)
Deferred	(57,100)	(92,700)	(12,800)
	(3,000)	(100,400)	(21,400)
Net Income (Loss) for the Year	$103,040	$(84,296)	$93,832
Net Income (Loss) Per Common Share			
Canadian Method			
Basic	$2.83	$(3.36)	$2.40
Fully diluted	2.72	(3.36)	2.34
United States Method			
Primary	2.72	(3.36)	2.37
Fully diluted	2.72	(3.36)	2.34

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED BALANCE SHEETS

As at December 31, 1983 and 1982
(thousands of Canadian dollars)

	1983	1982
Assets		
Current Assets		
Cash and term deposits	9,928	19,833
Accounts receivable	260,084	280,532
Inventories	493,523	656,165
	763,535	956,530
Joint Ventures, Development Land and Investments	257,955	287,552
Fixed Assets		
Properties, plants and equipment	1,400,343	1,441,936
Accumulated depreciation and depletion	574,739	551,509
	825,604	890,427
Investment in Genstar Financial Corporation	454,375	477,534
Intangible Assets	47,367	48,261
	$2,348,836	$2,660,304

On behalf of the Board

Angus MacNaughton
Director

Director

	1983	1982
Liabilities		
Current Liabilities		
Short-term borrowings	231,096	415,110
Accounts payable	237,702	271,929
Income taxes	6,906	(20,246)
Advances relating to housing and land inventories	88,195	177,265
Current portion of long-term debt	23,195	20,747
	587,094	864,805
Long-term Debt	713,593	752,899
Deferred Revenue	77,043	87,361
Deferred Income Taxes	24,500	82,100
	1,402,230	1,787,165
Capital Stock and Retained Earnings		
Redeemable preferred shares	120,000	120,000
Convertible redeemable preferred shares	104,869	106,868
Common shares and contributed surplus	304,338	296,775
Retained earnings	383,099	316,796
Unrealized foreign exchange translation	34,300	32,700
	$2,348,836	$2,660,304

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Changes in Financial Position

For the years ended December 31, 1983, 1982 and 1981
(thousands of Canadian dollars)

	1983	1982	1981
Net Funds Generated (Required) by:			
Operating activities	228,005	(37,684)	(118)
Financing activities	(40,678)	96,906	70,673
Investment activities	85,757	(2,590)	(453,072)
Net Decrease (Increase) in Short-term Borrowings and Advances Relating to Housing and Land Inventories	$ 273,084	$ 56,632	$(382,517)
Operating Activities			
Net income (loss) for the year	103,040	(84,296)	93,832
Items not affecting funds			
Depreciation, depletion and amortization	70,314	70,896	78,781
Gains on sales of assets	(7,321)	(15,600)	(9,473)
Deferred income taxes	(57,100)	(92,700)	(12,800)
Equity income less distributions	(33,093)	(18,290)	(10,946)
Diminution in value of long-term assets	6,665	38,525	—
Other	(2,911)	(4,591)	5,933
Funds Generated (Required) by Operations	79,594	(106,056)	145,327
Change in Operating Working Capital			
Cash	9,905	(7,517)	11,541
Accounts receivable	20,448	96,407	5,591
Inventories	162,642	39,039	(30,868)
Accounts payable and income taxes	(7,075)	(22,602)	(63,426)
Foreign exchange translation effects	(772)	9,953	6,951
	185,148	115,280	(70,211)
Dividends	(36,737)	(46,908)	(75,234)
Net Funds Generated (Required) by Operating Activities	$ 228,005	$ (37,684)	$ (118)
Issue of long-term debt	—	153,725	230,807
Repayment of long-term debt	(35,896)	(45,183)	(224,584)
Deferred revenue and lease deposit	(10,346)	(12,493)	60,264
Issue of capital stock	5,564	857	4,186
Net Funds Generated (Required) by Financing Activities	$ (40,678)	$ 96,906	$ 70,673
Net Funds Available for Investment Activities	$ 187,327	$ 59,222	$ 70,555

	1983	1982	1981
Investment Activities			
Genstar Financial Corporation			
Acquisition of subsidiary	—	—	(288,000)
Distributions	114,284	88,402	64,371
Investments	(43,904)	(90,555)	(39,078)
	70,380	(2,153)	(262,707)
Fixed Assets			
Disposals	46,381	37,638	29,785
Additions	(40,348)	(66,224)	(147,547)
	6,033	(28,586)	(117,762)
Joint Ventures			
Distributions	25,265	32,153	39,313
Investments	(25,445)	(39,257)	(37,945)
	(180)	(7,104)	1,368
Loans and Development Land			
Decreases	46,275	93,913	72,861
Increases	(27,771)	(45,127)	(108,186)
	18,504	48,786	(35,325)
Investments and Other			
Decreases	19,892	25,039	17,544
Increases	(28,872)	(38,572)	(56,190)
	(8,980)	(13,533)	(38,646)
Net Funds Generated (Required) by Investment Activities	$ 85,757	$ (2,590)	$(453,072)
Net Decrease (Increase) in Short-term Borrowings and Advances Relating to Housing and Land Inventories	$ 273,084	$ 56,632	$(382,517)
Net Decrease (Increase) Consists of:			
Short-term borrowings	184,014	151,403	(373,899)
Advances relating to housing and land inventories	89,070	(94,771)	(8,618)
	$ 273,084	$ 56,632	$(382,517)

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

For the years ended December 31, 1983, 1982 and 1981 (thousands of Canadian dollars)

	1983	1982	1981
Balance—Beginning of Year	316,796	448,000	429,402
Net income (loss) for the year	103,040	(84,296)	93,832
	419,836	363,704	523,234
Dividends—preferred shares	14,848	19,234	20,390
—common shares	21,889	27,674	54,844
	36,737	46,908	75,234
Balance—End of Year	$ 383,099	$ 316,796	$ 448,000

The accompanying notes are an integral part of these financial statements.

Notes To Consolidated Financial Statements

For the years ended December 31, 1983, 1982 and 1981

1. Inventories

	1983	1982
	(thousands of dollars)	
Finished goods	**72,300**	149,083
Work in process	**35,800**	37,781
Raw materials, supplies and repair parts	**61,188**	66,918
Land	**324,235**	402,383
	$ 493,523	$ 656,165

2. Joint Ventures, Development Land and Investments

	1983	1982
	(thousands of dollars)	
Joint ventures (Note 3)	**57,633**	70,048
Development land	**41,950**	43,683
Mortgages and loans receivable	**44,845**	65,285
Portfolio securities	**69,220**	57,924
Development property subsidiary	**44,307**	50,612
	$ 257,955	$ 287,552

Mortgages and loans receivable include $21,800,000 at December 31, 1983, and $32,400,000 at December 31, 1982, related to land and housing sales with interest rates of 5% to prime plus 2%. The remaining amounts relate primarily to balances on asset sales and stock purchase plans.

Portfolio securities include marketable investments of $8,594,000 at December 31, 1983, and $3,547,000 at December 31, 1982 with market values of $107,400,000 and $40,400,000, respectively. Gain on sales of these securities was $92,374,000, $24,928,000 and $31,510,000 in 1983, 1982 and 1981, respectively. Other marketable securities with a market value of $75,300,000 at December 31, 1983, are included in Genstar Financial Corporation.

The development property subsidiary is held for sale and consists of land and properties under development at a cost of $80,507,000 net of secured and unsecured debt of $36,200,000 at December 31, 1983 and a cost of $85,612,000 net of secured and unsecured debt of $35,000,000 at December 31, 1982.

3. Joint Ventures

The company is a partner in a number of incorporated and unincorporated joint ventures engaged in the development and financing of real estate, construction, chemical and mixed fertilizer production and marine financing activities. The following is a summary of the combined operations and financial position of these investments.

	1983	1982
Net Assets Employed	(thousands of dollars)	
Accounts and loans receivable and other assets	**121,963**	169,096
Fixed assets	**41,552**	34,573
Land, real estate under development and other inventories	**460,942**	547,771
	624,457	751,440
Accounts payable and other liabilities	**78,337**	105,711
	$546,120	$645,729
Financed by		
Mortgages and loans payable	**483,982**	551,987
Equity and advances by other partners	**13,171**	17,091
Equity and advances by the company	**48,967**	76,651
	$546,120	$645,729

	1983	1982	1981
	(thousands of dollars)		
Operations			
Revenues	316,591	336,569	443,526
Expenses	380,317	442,493	422,876
Income (Loss) before income taxes	$ (63,726)	$(105,924)	$ 20,650
Allocation of Income (Loss)			
Other partners	(40,941)	(59,644)	6,175
Company	(22,785)	(46,280)	14,475
	$ (63,726)	$(105,924)	$ 20,650

In general, liabilities of joint ventures are secured by pledges of the related assets. At times the joint venture partners may further support these obligations should the realization from joint venture assets not be sufficient. As a general partner in certain unincorporated ventures, the company is contingently liable at December 31, 1983 for the other partners' share of liabilities of $41,200,000 should the other partners not be able to satisfy them, as well as for its own share of $43,800,000 compared to $57,500,000 and $64,200,000, respectively, at December 31, 1982.

As a limited partner in other ventures, the company is a guarantor of partnership liabilities of $32,800,000 at December 31, 1983, compared to $24,700,000 at December 31, 1982. Under certain partnership agreements, the company is also committed to make additional investments of $7,700,000.

In addition, the company has agreed to purchase land from a partnership in sufficient quantities to enable the partnership to meet principal and interest requirements for $113,300,000 of loans if the partnership is unable to do so from its own resources. These loans bear interest at 9.75%, mature to 1993 and require the following payments of principal over the next five years:

1984-$ 1,000,000; 1985-$11,400,000;
1986-$11,300,000; 1987-$11,300,000;
1988-$16,800,000.

	1983	1982
	(thousands of dollars)	
Reconciliation of Investment in Joint Ventures		
Current portion of investment in joint ventures (included in accounts receivable)	(14,173)	(1,742)
Long-term investment in joint ventures	57,633	70,048
	43,460	68,306
Deferred profit between joint ventures and the company	5,441	2,277
Provision for future losses on joint ventures	66	6,068
Equity and advances by the company (as above)	$ 48,967	$ 76,651

4. Fixed Assets

	1983		1982	
	Cost	Accumulated Depreciation and Depletion	Cost	Accumulated Depreciation and Depletion
	(thousands of dollars)			
Plant sites	35,669	—	37,511	—
Quarries and gravel deposits	54,004	14,610	63,700	15,591
Buildings	245,745	98,302	251,458	90,966
Machinery and equipment	1,064,925	461,827	1,089,267	444,952
	$1,400,343	$ 574,739	$1,441,936	$ 551,509

Included in fixed assets at December 31,1983 is construction in progress of $25,000,000 with an estimated cost to complete of $20,000,000. Information concerning fixed assets held under capitalized leases is provided in Note 14.

5. Investment in Genstar Financial Corporation

Genstar Financial Corporation (GFC) and its subsidiaries are engaged primarily in retail, commercial and mortgage banking, fiduciary services, real estate brokerage, investment in start-up companies, equipment rental and container leasing.

Consolidated Balance Sheets	1983	1982
	(thousands of dollars)	
Assets		
Cash and term deposits	950,294	939,593
Securities	596,818	452,082
Loans	5,106,698	4,513,725
Properties and equipment	415,595	314,423
Accrued interest and other assets	177,639	232,574
Intangible assets arising from acquisitions	162,736	188,225
	$7,409,780	$6,640,622
Liabilities		
Deposits, debentures and guaranteed investment certificates	6,096,669	5,369,209
Advances from affiliates	9,282	122,686
Other liabilities	840,570	731,809
	6,946,521	6,223,704
Capital Stock and Retained Earnings		
Common shares and contributed surplus	351,689	351,689
Retained earnings	111,570	65,229
	463,259	416,918
	$7,409,780	$6,640,622

Consolidated Statements of Income	1983	1982	1981
Revenues	(thousands of dollars)		
Investment income	808,313	878,997	397,286
Fees and other revenues	325,913	226,714	115,611
	1,134,226	1,105,711	512,897
Expenses			
Interest expense	699,657	772,370	366,762
Other expenses	341,278	270,382	126,641
	1,040,935	1,042,752	493,403
Income before income taxes	93,291	62,959	19,494
Provision for income taxes	9,600	10,500	3,200
Net Income for the Year	$ 83,691	$ 52,459	$ 16,294

Intangible assets represent the excess of the cost of investment in subsidiaries over fair value of net tangible assets and liabilities at the dates of acquisition. Amortization and other adjustments related to this excess are included in income and increased subsidiaries' reported net income by $6,500,000 in 1983 and $16,900,000 in 1982 and reduced net income by $3,000,000 in 1981. This excess cost relates primarily to the acquisition of Canada Permanent Mortgage Corporation.

A reconciliation of the equity of GFC to the consolidated investment in GFC is as follows:

	1983	1982
	(thousands of dollars)	
Capital stock and retained earnings (as above)	463,259	416,918
Advances from affiliates	9,282	122,686
	472,541	539,604
Elimination of unrealized inter-company gains	(18,166)	(62,070)
Investment in Genstar Financial Corporation	$ 454,375	$ 477,534

6. Intangible Assets

	1983	1982
	(thousands of dollars)	
Intangible assets arising from acquisitions	40,885	40,642
Debt discount	6,482	7,619
	$ 47,367	$ 48,261

Intangible assets arising from acquisitions represents the excess of cost over the fair value of net tangible assets acquired. This amount includes an unamortized balance of $8,956,000 at December 31, 1983, from acquisitions subsequent to November 1, 1970, which is being amortized to income over periods up to forty years. Unamortized intangible assets are charged to income in the event of a permanent diminution in value.

7. Advances Relating to Housing and Land Inventories

Included in advances relating to housing and land inventories is $53,474,000 at December 31, 1983 and $78,492,000 at December 31, 1982 representing the outstanding balances of the purchase price of development lands which are payable over periods up to five years. The remaining advances of $34,721,000 at December 31, 1983 and $98,773,000 at December 31, 1982 represent construction financing and mortgage loans on residential houses included in inventories, which will be repaid or assumed by the purchaser upon sale of the related asset. Interest rates on these advances range from 6% to 15%.

8. Long-Term Debt

	1983		1982	
Fixed Interest Rate Debt	Current Portion	Total	Current Portion	Total
Debentures	(thousands of dollars)			
9% convertible due in 1985*	—	4,674	—	4,659
6½% convertible due in 1988*	—	9,036	—	9,605
17½% due in 1989*	—	93,344	—	92,594
10% due to 1989*	363	52,466	—	55,482
14¾% due to 1991*	2,614	57,021	1,513	58,076
7% due in 1991**	—	57,110	—	61,150
11¾% due to 1995	83	16,583	440	18,440
11% sinking fund due to 1996*	681	28,639	2,027	31,917
11¼% due to 1996	325	37,825	289	40,289
10¾% due to 1999	2,000	48,000	2,000	50,000
	6,066	404,698	6,269	422,212
Capital Lease Obligations (Note 14)				
5¾% to 12% revenue bonds due to 1999*	11,024	27,882	49	27,707
4% to 13⅞% building and equipment leases due to 1996*	3,882	7,622	4,760	18,090
	14,906	35,504	4,809	45,797
11% Term Bank Loan Due to 1989*	—	23,780	—	23,403
Non-Interest Bearing to 17% Notes, Mortgages and Debentures Due to 2004*	2,223	21,786	9,669	31,804
Total Fixed Interest Rate Debt	23,195	485,768	20,747	523,216
Variable Interest Rate Debt				
Term Bank Loans				
Prime due in 1984*	—	—	—	50,050
Prime plus ¾% due in 1987*	—	51,020	—	50,430
	—	51,020	—	100,480
Debenture				
Due to 1994 at a rate approximating prime*	—	200,000	—	149,950
Total Variable Interest Rate Debt	—	251,020	—	250,430
	23,195	736,788	20,747	773,646
Current Portion	—	23,195	—	20,747
Long-term Debt	$ 23,195	$ 713,593	$ 20,747	$ 752,899

*All or partly payable in U.S. dollars. **Payable in Swiss Francs.

All debentures except the 9% convertible debentures due in 1985, the 6½% convertible debentures due in 1988 and the 11% debentures due to 1996 are secured by a floating charge on most of the Canadian assets of the company.

Trust indentures pertaining to the debentures contain restrictive covenants covering the issuance of additional long-term debt and the payment of dividends. Under the most restrictive of these covenants, retained earnings of $300,000,000 were available for common share dividends at December 31, 1983.

Installments due on long-term debt (excluding capital leases) required in the next five years are summarized as follows:

	Long-term debt
	(thousands of dollars)
1984	$ 8,289
1985	22,244
1986	39,632
1987	100,064
1988	60,429

9. Redeemable Preferred Shares

Shares Authorized

Preferred—*5,000,000 shares authorized without nominal or par value issuable in series and designated as follows:*

—3,390,424 Series A, B and D voting convertible shares of stated values of $20.00 each bearing dividends from $1.10 to $1.50 each. Series A and B are no longer convertible after January 1, 1984.

Second Preferred—*20,000,000 shares authorized without nominal or par value issuable in series and designated as follows:*

—1,000,000 Series A non-voting non-convertible shares of the stated value of U.S. $100 each bearing cumulative variable rate dividends.

—439,181 Series B voting convertible shares of the stated value of $24.40 each bearing cumulative dividends of U.S. $1.68 each.

—3,000,000 Series C voting convertible shares of the stated value of $31.50 each bearing cumulative dividends of $2.35 each.

—2,000,000 Series SP voting convertible shares of stated values determined at date of issue bearing non-cumulative dividends at various rates.

Issued and Fully Paid	1983		1982		1981	
	Shares	Amount	Shares	Amount	Shares	Amount
			(thousands)			
Redeemable						
Second preferred shares						
—Series A	1,000	$ 120,000	1,000	$ 120,000	1,000	$ 120,000
Convertible Redeemable						
Preferred shares						
—Series A, B and D	54	1,085	208	4,156	216	4,315
Second preferred shares						
—Series B	210	5,130	211	5,157	214	5,208
—Series C	2,976	93,754	2,977	93,770	2,977	93,770
—Series SP	552	4,900	485	3,785	739	7,775
	3,792	$ 104,869	3,881	$ 106,868	4,146	$ 111,068

Convertible Redeemable Shares Issued	1983	1982	1981
		(thousands of shares)	
Beginning of year	3,881	4,146	4,163
Issued in the year			
—Series SP at U.S. $9.06 to U.S. $12.62	76	497	114
—Series D at $22.50 in exchange for options and warrants of an amalgamated subsidiary	—	—	41
	3,957	4,643	4,318
Converted to common shares	(163)	(11)	(172)
Series SP redeemed	(2)	(751)	—
End of year	3,792	3,881	4,146

Under the terms of the second preferred share issue agreements, no preferred shares ranking higher than the second preferred shares can be issued without the consent of the second preferred shareholders.

The Series A second preferred shares bear cumulative variable-rate dividends based on the London Inter-Bank Offered Rate. As of December 31, 1983, 1982 and 1981, the dividend rates were 6.10%, 6.29% and 9.50%, respectively. At the option of the holder, the company will purchase, at the stated value, a maximum of 330,000 shares on each of November 1, 1986 and 1987 and any balance outstanding on November 1, 1988.

Each Series C second preferred share is convertible into one common share until June 30, 1990, after which the company will purchase 1% of the shares then outstanding per quarter. Since issue in 1980 a total of 23,680 shares has been converted to common shares.

10. Common Shares and Contributed Surplus

Authorized—*an unlimited number, without nominal or par value.*

Issued and Fully Paid

	1983		1982		1981	
	Shares	**Amount**	Shares	Amount	Shares	Amount
			(thousands)			
Common shares	**31,359**	**295,786**	30,878	288,223	30,589	283,166
Contributed surplus	**—**	**8,552**	—	8,552	—	8,552
	31,359	**$304,338**	30,878	$296,775	30,589	$291,718

Common Shares Issued	**1983**	1982	1981
		(thousands of shares)	
Beginning of year	**30,878**	30,589	30,215
Issued in the year—			
At $10.00 to $31.50 on the conversion of preferred shares	**309**	16	224
At $5.17 to $35.32 under stock purchase plans and on the exercise of options	**139**	256	69
At U.S. $16.00 to U.S. $41.00 in exchange for convertible debentures	**33**	17	81
End of year	**31,359**	30,878	30,589
Common Shares Reserved for Issuance			
Series C convertible second preferred shares	**2,976**	2,977	2,977
Series SP convertible second preferred shares	**619**	454	86
Convertible debentures	**546**	578	595
Series B convertible second preferred shares	**189**	190	192
Exercise of options	**156**	138	60
Series A, B and D convertible preferred shares	**30**	416	432
	4,516	4,753	4,342

1965 Stock Option Plan
Options have been granted whereby common shares may be purchased by employees at a price equal to 90% of market on the grant date. Employees, the majority of whom were also officers, held options for 50,000, 56,000, and 60,000 common shares at December 31, 1983, 1982 and 1981, respectively. Option prices from inception of the plan have ranged from $11.99 to $15.75. Of the 50,000 options outstanding at December 31, 1983, 38,000 are currently exercisable.

1982 Stock Option Plan
Options have been granted whereby common shares may be purchased by employees at a price equal to 100% of market as of the date of grant. Employees, some of whom were also officers, held options for 105,690 and 81,600 common shares at December 31, 1983 and 1982, respectively. Option prices from inception of the plan have ranged from U.S. $10.88 to U.S. $25.57. Of the 105,690 options outstanding at December 31, 1983, 62,315 are currently exercisable.

1969 Stock Purchase Plan
Under the terms of the 1969 Stock Purchase Plan, trustees have purchased, at approximately 99% of market, 21,825 common shares for the benefit of employees who are officers and 163,505 common shares for the benefit of other employees. The participants pay $10.83 to $42.14 for the shares over a period of seven years together with interest calculated at 5% per annum. The shares are held as security by the trustees until full payment has been received.

1979 Stock Purchase Plan
Under the terms of the 1979 Stock Purchase Plan, Series SP second preferred shares were issued to employees at a price equal to the conversion value as of the date of grant. The SP shares are convertible into common shares pursuant to a conversion formula based on market value. Employees, some of whom were also officers and directors, held 552,250 Series SP second preferred shares at December 31, 1983. The participants pay U.S. $5.48 to U.S. $12.62 for the shares over a period of ten years together with interest currently set at 9% per annum. Non-cumulative dividends are paid at the annual rate of U.S. $0.66 to U.S. $1.51 per share.

11. Unrealized Foreign Exchange Translation

An analysis of the changes in the unrealized foreign exchange translation account follows:

	1983	1982
	(thousands of dollars)	
Balance—beginning of year	32,700	5,700
Translation adjustments	2,100	29,800
Deferred income taxes	(500)	(2,800)
Balance—end of year	$34,300	$32,700
Realized foreign exchange gain (loss) included in income	$ 400	$ (1,900)
Unrealized foreign exchange gain included in income	$ 4,100	$ 5,800
Canadian equivalent of one United States dollar (year-end rate)	$ 1.245	$ 1.235

12. Income Taxes

Income before taxes and provision for income taxes by geographic area are as follows:

	1983	1982	1981
	(thousands of dollars)		
Income (Loss) Before Income Taxes			
Canada	(24,961)	(25,669)	90,855
United States	(6,885)	(289,790)	(158,883)
Other	131,886	130,763	140,460
	$ 100,040	$(184,696)	$ 72,432
Provision for Current Income Taxes			
Canada	11,200	(5,400)	28,500
United States—provision	20,800	(5,500)	(38,600)
United States—reclassification between current and deferred	14,100	—	—
Other	8,000	3,200	1,500
	$ 54,100	$ (7,700)	$ (8,600)
Provision for Deferred Income Taxes			
Canada	(44,300)	(22,400)	7,000
United States—provision	1,300	(70,300)	(19,800)
United States—reclassification between current and deferred	(14,100)	—	—
	$ (57,100)	$ (92,700)	$ (12,800)

The components of the deferred tax provision are as follows:

	1983	1982	1981
	(thousands of dollars)		
Additional depreciation for tax purposes	2,600	6,400	5,900
Losses available to reduce future taxable income	(61,900)	(30,000)	(19,800)
Portion of real estate and joint venture income deferred (recognized) for tax purposes	(2,000)	(1,400)	1,700
Amortization of (benefit from) excess tax value of assets available to reduce future taxable income	4,200	(69,700)	—
Other	—	2,000	(600)
	$ (57,100)	$ (92,700)	$ (12,800)

Investment tax credits are accounted for on the flow-through method.

Losses of $254,000,000 are available to reduce future United States taxable income in years up to and including 1998. Tax recoveries have not been recorded on $124,000,000 of these losses. In addition, as a result of a merger of certain subsidiaries in 1982, the tax value of United States assets exceeds book amounts by $149,000,000 which is available to reduce future taxable income.

Income taxes have not been provided on undistributed income of certain foreign subsidiaries as such income is being reinvested in foreign operations. At December 31, 1983, $295,000,000 of such undistributed income, if distributed as dividends, would be subject to income tax at 46%.

The company's effective income tax rates are as follows:	**1983**	1982	1981
Canadian and United States federal income tax rates	**46.0%**	(46.0)%	46.0%
Effects of investment, manufacturing and processing tax incentives	**3.8**	6.7	(12.5)
Provincial and state income taxes, net of federal deductions	**3.8**	(1.6)	(1.5)
Reduced rate on capital gains and other income	**(1.9)**	6.4	(8.0)
Inter-unit interest income taxed at reduced rates	**(35.7)**	(30.3)	(80.6)
Losses available to reduce future tax provisions	**11.2**	15.0	35.5
Equity net income and non-taxable foreign income	**(30.3)**	(6.4)	(16.7)
Amortization of acquisition purchase price allocations	**1.3**	0.5	6.9
Other	**(1.2)**	1.3	1.4
	(3.0)%	(54.4)%	(29.5)%

13. Net Income per Common Share

The weighted average number of shares used in calculating net income per common share under the Canadian and United States methods is as follows:

	Canadian			United States		
	1983	1982	1981	**1983**	1982	1981
	(thousands of shares)					
Basic and Primary						
Weighted average common shares	**31,221**	30,653	30,495	**31,221**	30,653	30,495
Share equivalents pertaining to						
—conversion of preferred shares	**—**	—	—	**3,730**	—	3,247
—conversion of debt	**—**	—	—	**553**	—	525
—options and warrants	**—**	—	—	**39**	—	54
	31,221	30,653	30,495	**35,543**	30,653	34,321
Fully Diluted						
Weighted average common shares	**31,221**	30,653	30,495	**31,221**	30,653	30,495
Shares pertaining to						
—conversion of preferred shares	**3,793**	—	3,724	**3,793**	—	3,724
—conversion of debt	**553**	—	525	**553**	—	525
—options and warrants	**44**	—	146	**44**	—	55
	35,611	30,653	34,890	**35,611**	30,653	34,799

Basic and primary income per common share have been calculated after reducing net income by the preferred share dividend entitlement of $14,774,000 in 1983, $18,689,000 in 1982 and $20,589,000 in 1981. Net income was increased for purposes of calculating primary income per common share by $8,417,000 in 1983 and $7,958,000 in 1981, being the effect on income available for common shares of preferred dividends and the after-tax interest assumed on convertible debt.

In determining fully diluted income per common share, net income has been reduced by $6,840,000 in 1983, $18,689,000 in 1982 and $12,680,000 in 1981, being the dividends on outstanding non-convertible preferred shares, and increased by $505,000 in 1983 and $331,000 in 1981, being the after-tax effect of interest on convertible debt.

In 1982, the weighted average number of common shares used to calculate primary and fully diluted income per common share has not been increased for the potential effects of conversion of options, preferred shares or debt, as this would reduce the calculated loss per common share.

14. Leased Assets and Lease Commitments

The company leases equipment, manufacturing facilities and premises under both operating and capital leases. Properties, plants and equipment include the following amounts for leases that have been capitalized:

	1983	1982
	(thousands of dollars)	
Buildings	13,000	15,900
Machinery and equipment	47,100	62,900
	60,100	78,800
Less: accumulated depreciation	30,700	40,900
	$29,400	$37,900

Amortization of capital leases is included in interest and depreciation expense. Capitalized leases include municipal revenue bonds on lease-option facilities of a subsidiary which require lease payments equal to bond servicing and redemption requirements. Future minimum payments under capital leases and non-cancellable operating leases for equipment and premises are as follows:

	Operating Leases	Capital Leases
	(thousands of dollars)	
1984	23,700	16,788
1985	17,500	3,687
1986	13,600	2,651
1987	11,100	2,185
1988	7,800	2,137
Subsequent years' lease payments	27,300	19,373
Total lease payments	$101,000	46,821
Imputed interest		11,317
Present value of minimum lease payments included in long-term debt		$ 35,504

Rent expense from operating leases for the years ended December 31, 1983, 1982 and 1981 was $28,500,000, $35,900,000 and $23,100,000, respectively.

15. Pension Plans

The company and its subsidiaries have a number of defined benefit pension plans under which salaried, commissioned and hourly employees are eligible to participate upon retirement after varying years of employment. The company's annual contributions to the plans are charged to income based on actuarial funding requirements.

The most recent actuarial valuations of the pension plans were made as at January 1, 1983 using an assumed return on pension plan assets of 6% to 8½%. The valuations of the Canadian pension plans reflect a change in actuarial assumptions and the asset valuation method. The only change in actuarial assumptions was to change the interest rate used to discount benefits after retirement from 5½% to 8½%. The actuarial value of assets was determined using a three year moving average of market values rather than the previously used book value of assets. As a result of these changes, the surplus of pension plan assets over accumulated plan benefits as at January 1, 1983 increased $19,600,000. There were no changes in the United States plans.

Total contributions to plans charged to income were $4,900,000 in 1983 and $9,400,000 in 1981. In 1982, pension expense was a net credit to income of $3,000,000 resulting from excess contributions withdrawn from the plans offset by the current years pension plan expense charged to income. Pension plan expense in the United States includes prior service costs amortized up to 30 years.

The results of the valuations of the Canadian and the United States plans at January 1, 1983 are:

—assets with a market value of $93,100,000 were available in the Canadian plans compared to a present value of accumulated plan benefits of $64,300,000. The accumulated plan benefits calculation was based on the value of future accrued benefits at retirement and accordingly assumed 100% vesting of benefits.
—assets with a market value of $121,300,000 were available in the United States plans compared to a present value of accumulated plan benefits of $95,600,000. The accumulated plan benefits calculation was based on the value of currently accrued benefits payable at retirement and includes $91,300,000 of currently vested benefits.

16. Litigation

Cement

A subsidiary has been named as defendant, along with approximately 40 other defendants, in a number of actions commenced in federal courts in various states, by plaintiffs purporting to represent various groups, alleging that the Portland Cement Association and its members, including the subsidiary, have violated the United States antitrust laws by engaging in a conspiracy to fix, stabilize and maintain the price of cement. No specific amount of money damages is claimed. These actions, which include suits by a number of states and certain municipalities, have been transferred to the United States District Court in Arizona. The actions are in the final discovery stage, and the court has set a trial date in mid-1984. Plaintiffs are seeking certification of various classes of cement consumers.

As of December 31, 1983, seven of the defendants had agreed with plaintiffs upon terms and conditions of settlement of the cases, which settlement has been approved by the District Court in Arizona. The subsidiary has not agreed to settle, and management denies the allegations and intends to defend the actions vigorously. Based upon investigation of the allegations to date, counsel engaged to represent the subsidiary in these actions believes that the position of management is sound and remains of the opinion that the subsidiary has meritorious defenses to the claims.

Asbestos

During the past several years, a subsidiary has been named as one of the defendants in numerous actions filed by individuals who seek damages based on the alleged inhalation of asbestos fibers from products allegedly made and sold by the subsidiary ("Personal Injury Claims"). The subsidiary no longer manufactures any asbestos products. Set forth below is a summary, as of the dates specified, of the cumulative number of Personal Injury Claims filed, disposed of and pending against the subsidiary.

	Cumulative Claims		
At December 31,	Filed	Disposed	Pending
1981	10,193	2,495	7,698
1982	13,440	3,049	10,391
1983	16,395	3,664	12,731

The cumulative cost of defense against such claims was approximately $8,900,000 as of December 31, 1982, and approximately $11,200,000 as of December 31, 1983. Such cost is comprised of amounts paid or to be paid to plaintiffs in settlements, legal fees for defending claims and reimbursement of amounts to insurance companies for legal fees and other costs of defending such claims, but do not include any payments made by one of the subsidiary's insurance carriers under the Interim Agreement hereinafter described. As discussed below, the subsidiary is litigating with its insurance carriers the ultimate responsibility for all such costs.

The subsidiary, along with a number of other producers of asbestos-related products, has also been named as a defendant in several cases in which the plaintiffs, public entities, allege that the presence in public buildings of certain building materials containing asbestos allegedly manufactured or sold by the subsidiary and other producers constitutes a health hazard ("Property Damage Claims").

Although the subsidiary is unable to reliably estimate the number of Personal Injury and Property Damage Claims that will be made in the future, based on its historical experience, the subsidiary anticipates that a significant number of additional such claims may be made against it.

All of the litigation described above has been and is being defended by insurance carriers subject to disputes concerning coverage. During 1982, an Interim Agreement was reached with an insurance carrier, which had been the subsidiary's primary liability insurer through 1976. Pursuant to the Interim Agreement, the carrier agreed, under a reservation of rights, to defend and pay for costs of settlements or satisfaction of judgments for all Personal Injury Claims that were pending as of October 1, 1982, and for Personal Injury Claims brought after such date arising out of any alleged asbestos exposure that occurred prior to July, 1976.

In 1983, the insurance carrier noted above and the subsidiary commenced proceedings against each other and against at least 26 other insurance companies which, from time to time, have issued product liability insurance to the subsidiary. The issue concerns whether policy coverage is determined during the period from the time the plaintiff was exposed to asbestos until the plaintiff's injury was manifested, at the time of manifestation or some other time. Both of these actions are in their preliminary stages. The subsidiary intends to continue to contest any attempt by its insurance carriers to deny insurance coverage for the foregoing claims.

Although the amount of liability with respect to Personal Injury Claims and Property Damage Claims cannot be ascertained, in the opinion of management, any resulting liability from pending Personal Injury Claims and Property Damage Claims will not materially affect the company's consolidated financial position.

Other

The company and its subsidiaries are also parties to routine claims and suits brought against them in the ordinary course of business. In the opinion of management, all such routine claims and suits are adequately covered by insurance, or if not so covered, the results are not expected to materially affect the company's consolidated financial position.

17. Additional Information

Reclassification of Comparative Figures

Certain 1981 and 1982 amounts have been reclassified to conform with 1983 presentation.

Capitalized Interest Costs

Interest costs, related primarily to revenue property development and real estate joint ventures are capitalized during the development period and charged against income as part of construction cost or depreciation. Had these interest costs been expensed as incurred, income before income taxes would not have changed in 1983, but would have been reduced by $3,800,000 and $19,700,000 in 1982 and 1981, respectively.

Restrictions on Inter-Company Distributions

Loans, dividend payments and income distributions from certain subsidiaries and joint ventures are restricted by legislation, trust indentures and other agreements.

Canada Permanent Mortgage Corporation (CPMC), as a public deposit and lending institution, is regulated by Canadian federal and provincial legislation, the federal portion of which is administered by the Superintendent of Insurance, Canada, under broad powers granted by the legislation. Regulatory approval would be required for any loan from CPMC to the company. The Superintendent has set guidelines for all large Canadian trust companies requiring that total borrowings cannot exceed twenty-five times net assets as defined. Under these guidelines, at December 31, 1983, $24,250,000 of CPMC's retained earnings was available for dividends.

Trust indentures relating to $52,400,000 of the long-term debt of a subsidiary require approval of the trustees for dividend distributions to the company in excess of defined amounts and loans to the company other than in the normal course of business. No consolidated retained earnings are restricted under such provisions and all but $233,000,000 of the subsidiary's net assets could be distributed without the trustee's approval.

Joint venture agreements generally require the approval of all partners prior to the distribution of income or granting of loans to the partners. At December 31, 1983, $26,000,000 of consolidated retained earnings represent unremitted income of joint ventures.

18. Summarized Quarterly Financial Data (Unaudited)

	Three Months Ended				Year Ended
	March 31	June 30	September 30	December 31	December 31
1983	(thousands of dollars)				
Revenues	$ 330,239	$ 484,665	$ 531,616	$ 480,218	$1,826,738
Gross profit	83,039	124,356	172,782	129,394	509,571
Net income (loss)	(4,950)	25,286	62,144	20,560	103,040
Net income (loss) per common share					
—basic	$ (0.29)	$ 0.70	$ 1.89	$ 0.53	$ 2.83
—primary	(0.29)	0.69	1.79	0.53	2.72
Market price (The Toronto Stock Exchange)					
—high	$ 25.63	$ 38.75	$ 36.25	$ 31.25	$ 38.75
—low	20.25	24.13	27.75	23.63	20.25
Trading volume on exchanges in					
—Canada	1,765,716	2,248,030	1,388,619	1,360,012	6,762,377
—United States	3,313,209	5,344,032	3,575,032	3,056,025	15,288,298
—other	46,934	61,412	40,041	33,228	181,615
Total	5,125,859	7,653,474	5,003,692	4,449,265	22,232,290

	Three Months Ended				Year Ended
	March 31	June 30	September 30	December 31	December 31
1982	(thousands of dollars)				
Revenues	$ 324,562	$ 464,461	$ 524,425	$ 446,779	$1,760,227
Gross profit	62,272	90,698	88,678	57,917	299,565
Net income (loss)	(20,774)	(24,501)	(1,836)	(37,185)	(84,296)
Net income (loss) per common share					
—basic	$ (0.84)	$ (0.97)	$ (0.20)	$ (1.35)	$ (3.36)
—primary	(0.84)	(0.97)	(0.20)	(1.35)	(3.36)
Market price (The Toronto Stock Exchange)					
—high	$ 24.00	$ 17.25	$ 14.25	$ 24.75	$ 24.75
—low	16.00	11.00	8.88	11.50	8.88
Trading volume on exchanges in					
—Canada	1,233,971	1,886,992	1,371,905	4,359,978	8,852,846
—United States	934,300	2,269,700	1,170,000	6,901,000	11,275,000
—other	29,083	34,039	36,342	42,634	142,098
Total	2,197,354	4,190,731	2,578,247	11,303,612	20,269,944

19. Supplementary Information on Inflation and Changing Prices (Unaudited)

	1983	1982	1981	1980	1979
Average Canadian Consumer Price Index (1981 = 100 per Statistics Canada)	**117.2**	110.8	100.0	88.9	80.7
Revenues (millions of dollars)					
—as reported	**$1,827**	$1,760	$2,146	$2,310	$1,265
—in constant dollars	**1,827**	1,862	2,515	3,045	1,837
Dividends per common share					
—as reported	**$ 0.65**	$ 0.90	$ 1.80	$ 1.65	$ 1.25
—in constant dollars	**0.65**	0.95	2.11	2.18	1.82
Market price per common share at year-end					
—historical amount	**$31.00**	$20.25	$23.38	$38.62	$25.75
—in constant dollars	**30.38**	21.42	27.40	50.91	37.40

Overview

The average Consumer Price Index (CPI) in Canada increased by 5.8% during 1983, compared to an increase of 10.8% in the prior year. This percentage decrease is reflective of lower inflation experienced in North America. In order to provide financial statement users with information as to the effects of inflation on an enterprise, guidelines for the calculation and disclosure of inflation-adjusted information have been issued by both the Canadian Institute of Chartered Accountants (CICA) and the Financial Accounting Standards Board (FASB), United States. Both the CICA and FASB prescribe a "Current Cost" computation to measure the effects of specific inflation on a company's particular businesses and the use of the CPI to calculate amounts of equivalent purchasing power by adjusting for the effects of general inflation. The measurements concentrate on the amount of inventories and fixed assets necessary to maintain "Operating Capability" of an entity and the effects which these amounts, restated for the effects of inflation, would have on its operations and financing.

These computations as explained hereunder, involve estimates and subjective judgments which greatly reduce comparability to actual operating conditions and the reader is cautioned accordingly.

Current Cost Inflation
The prescribed method to approximate specific inflation is to determine today's cost to replace assets with the same type as those produced or utilized by the company. The methods used to determine this theoretical cost vary depending on the industry and type of asset.

In the case of Genstar, the current cost of inventories of manufactured products and housing units and the related cost of sales have been determined by applying recent purchase prices and standard costs to units on hand or the use of internal and external indices for changes in costs. Land development inventories and cost of sales have been adjusted by the Canadian and U.S. consumer price indices for land content and internal cost increment indices for the development content. The CPI has been used for land content because the unique nature of land purchased for future development precludes the determination of a sufficiently accurate alternative current cost.

The current cost of fixed assets of Genstar's manufacturing and marine operations has been determined using recent construction and purchase costs or internal, external and trade association indices. Current cost of mobile equipment was based on quoted used equipment prices, internal indices and new equipment prices factored for differences in utility. If new asset prices have been used, accumulated depreciation has been deducted for the expired useful life. Depreciation was based on average 1983 current cost and historic estimated useful lives.

Monetary assets and liabilities are restated only for the current year's general inflation. The company's investments in non-consolidated financial services subsidiaries and joint ventures have not been restated for the effects of inflation because the underlying assets and liabilities are primarily monetary in nature and therefore not subject to specific inflation.

General Inflation
The amount disclosed as "Current year adjustment for specific inflation in excess of general inflation" is the difference between the effects of general inflation and the effects of change in specific prices during the year. The Canadian CPI has been used as the measure of general inflation and has been applied to restate items from historical cost to equivalent average 1983 dollars. Foreign currency current cost amounts were translated to Canadian dollars and then restated into average 1983 dollars. A resulting translation adjustment represents the portion of the current year's increase in current cost that is due to the change in exchange rates between the foreign and Canadian currencies.

Purchasing Power Gain/Financing Adjustment
As the purchasing power of the dollar declines, so does the true economic cost to repay liabilities. The company's net monetary liabilities have been adjusted to average 1983 dollars using the Canadian CPI. The resultant reduction in liabilities, assuming repayment in December 31, 1983 dollars, is the purchasing power gain.

This gain can be viewed as the purchasing power decrease accruing to the lender of capital and results from using borrowed funds as a hedge against the effects of inflation on related assets.

The Canadian inflation accounting guidelines identify another allocation of the effects of inflation between the lender of capital and the common shareholder in addition to the purchasing power gain. In periods of increasing prices the company will require additional capital to offset the effect of increases in the specific prices of inventories and fixed assets and this additional capital is referred to as maintenance of the operating capability of the enterprise. The capital required to maintain the operating capability of the enterprise is provided by a combination of shareholders' investment and borrowed funds. The financing adjustment represents the increase in the current cost amounts of inventories and fixed assets which theoretically would be financed by debt given the company's average debt to equity structure for the year. The use of debt to finance these assets reduces the amount of the net increase in current cost that theoretically would be deducted from income attributable to shareholders.

Capital Stock and Retained Earnings
The company's total assets less liabilities have been adjusted to average 1983 dollars and for the current cost/constant dollar differential of inventories and fixed assets to produce a current cost equivalent.

The capital stock and retained earnings are considerably greater than the corresponding historical cost amounts. These adjusted amounts should be viewed as estimates of capital employed on which a fair return must be earned and not as amounts distributable to shareholders as dividends.

Selected 1983, 1982 and 1981 Financial Data Adjusted for the Effects of Changing Prices
(millions of dollars except per share amounts)

	1983	1982*	1981*
Net Income			
In average 1983 dollars	103.0	(89.2)	109.9
Current cost adjustments			
Cost of sales	24.7	41.7	70.0
Depreciation	61.5	52.8	55.0
	$ 16.8	$ (183.7)	$ (15.1)
Gain from Decline in Purchasing Power of Net Liabilities			
In average 1983 dollars	$ 52.9	$ 122.0	$ 144.0
Financing Adjustment			
Current cost income adjustment attributable to debt	$ 34.6	$ 38.0	$ 43.2
Net Income Per Common Share			
In average 1983 dollars	$ 0.07	$ (6.65)	$ (1.28)
Inventories and Fixed Assets			
As reported	1,405.4	1,641.0	1,757.4
Adjustment for general inflation	680.4	940.1	1,012.5
Current year adjustment for specific inflation in excess of (less than) general inflation:			
Current cost	2.1	(269.9)	76.8
Foreign exchange translation	6.7	93.5	(11.3)
	$2,094.6	$2,404.7	$2,835.4
Financing Adjustment			
Theoretical debt financing of annual change in current cost of assets	$ 42.0	$ 21.8	$ 22.7
Capital Stock and Retained Earnings			
In average 1983 dollars	$1,645.0	$1,618.0	$1,961.3

* For the purposes of comparison 1982 and 1981 amounts have been increased for the change in the average CPI from those years to 1983. This restates 1982 and 1981 amounts to the purchasing power equivalent of average 1983 dollars.

Expressed in year-end 1983 dollars, inventories, including development land, and fixed assets calculated under the current cost method were $742,725,000 and $1,394,763,000, respectively, compared to historic cost of $579,780,000 and $825,604,000.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheets of GENSTAR CORPORATION and subsidiaries as at December 31, 1983 and 1982, and the related statements of consolidated income, retained earnings and changes in financial position for each of the three years in the period ended December 31, 1983, as set forth on pages 30 through 54 of this report. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of GENSTAR CORPORATION and subsidiaries as at December 31, 1983 and 1982, and the results of their operations and changes in their financial position for each of the three years in the period ended December 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis.

Coopers & Lybrand

Chartered Accountants

Vancouver, Canada
February 29, 1984

Directors And Officers

Directors

*Charles de Bar
Corporate Director

**James W. Burns
President
Power Corporation
of Canada
(Holding Company)

**Frank S. Capon
Consultant

August A. Franck
Corporate Director

**Donald Getty
President
D. Getty
Investments Ltd.
(Investment Company)

**John B. Hamilton, Q.C.
Senior Partner
Hamilton, Torrance
(Barristers and Solicitors)

René Lamy
Governor
Société Générale
de Belgique, S.A.
(Portfolio Company)

Walter F. Light
Chairman of the Board and
Chief Executive Officer
Northern Telecom Limited
(Telecommunications
Equipment Manufacturer)

*Angus A. MacNaughton
Chairman of the Board and
Chief Executive Officer
Genstar Corporation

*W. Earle McLaughlin
Corporate Director

Frederick W. Mielke, Jr.
Chairman of the Board and
Chief Executive Officer
Pacific Gas & Electric Company
(Public Utility)

**Yves du Parc
Managing Director
Mines, Minerais et Métaux, S.A.
and President of Norore Corp.
(International Trading
Companies)

Saul Simkin
Chairman of the Board
Kins Management Limited
(Consultants)

*Ross J. Turner
President and Chief
Executive Officer
Genstar Corporation

Stephen R. Volk
Partner
Shearman & Sterling
(Attorneys at Law)

*Member of the Executive Committee
**Member of the Audit Committee

Officers

Angus A. MacNaughton
Chairman of the Board
and Chief Executive Officer

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President and Chief
Executive Officer

Walter S. Bannister
Executive Vice President

J. Leonard Holman
Executive Vice President

George F. Michals
Executive Vice President

John A. West
Executive Vice President

J. Ernest Hartz, Jr.
Senior Vice President
and General Counsel

Paul J. Kehoe
Senior Vice President

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Senior Vice President and
Chief Financial Officer

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Vice President

Paul T. Coté
Vice President
and Secretary

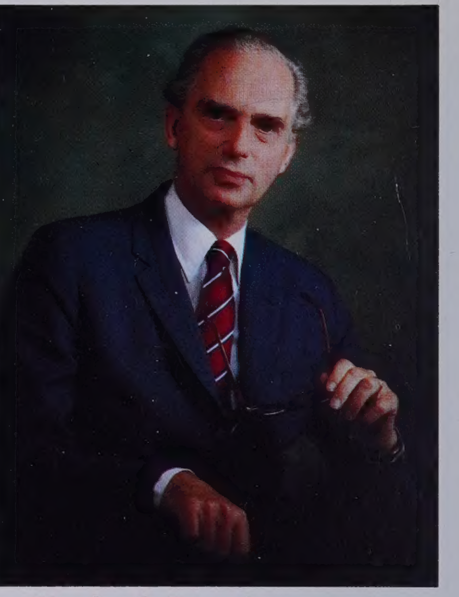
Arthur W. Falk
Vice President

J. Herbert Gaul, Jr.
Vice President and
Treasurer

Robert D. MacLean
Vice President

C.J. Byrne McNamara
Vice President and
Controller

Lorimer E. Whitworth
Vice President



Charles de Bar, after more than 30 years of service to Genstar and 10 years as Deputy Chairman of its Board of Directors, retired from office in 1983.

Mr. de Bar became associated with the formation of Genstar in 1951, when the company was established to pursue mining and minerals exploration interests in Canada. In 1960, he was elected Vice President at a time when the company's activities were shifting to the financing of new Canadian industrial ventures. Mr. de Bar was closely associated with that transition, and in 1965, one year following his election to the Board of Directors, Genstar amalgamated its holdings in cement, chemicals and glass manufacturing to become a diversified operating company.

In subsequent years, Mr. de Bar was elected Executive Vice President and, later, Deputy Chairman of the Board. During these years, he was actively involved in many changes within the corporation as new investments were made in such promising areas as financial services, land and real estate development and the manufacturing of building materials.

As a consequence of these actions, annual revenues have grown from $37 million at the time of amalgamation in 1965 to more than $1.8 billion in 1983. Genstar is grateful for Mr. de Bar's many contributions to that growth and is pleased he will remain a member of its Board of Directors.

Printed in Canada

Divisions And Subsidiaries

Building Materials And Services

Genstar Cement Limited
Edmonton, Alberta
R.D. MacLean, President

Genstar Cement Company
Oakland, California
A.K. Mueller, President

Genstar Lime Company
San Mateo, California
J.L. Crawley, President

Genstar Materials Limited
Calgary, Alberta
R.C. Kruger, President

Genstar Structures Limited
Calgary, Alberta
D. Pickersgill, President

Genstar Stone Products Company
Hunt Valley, Maryland
T.O. Nuttle, President

Genstar Construction Services Limited
Edmonton, Alberta
B. Amos, President

Genstar Building Materials Company
Irving, Texas
J.M. Shedden, President

Genstar Gypsum Limited
Edmonton, Alberta
G.R. Thompson, President

Genstar Conservation Systems, Inc.
San Mateo, California
W.D. Trewhitt, President

Seaspan International Ltd.
North Vancouver, British Columbia
A.M. Fowlis, President

Genstar Shipyard Ltd.
North Vancouver, British Columbia
W.D. Traill, President

McAllister Towing & Salvage Ltd.
Montreal, Quebec
D.G. McAllister, President

Land And Real Estate Development

Genstar Properties
San Diego, California
F.D. Dembinsky, President

Genstar Southwest Development
San Diego, California
R.B. McLeod, President

Genstar Southern Development
Miami, Florida
M.B. McAfee, President

Genstar Canadian Landholdings
Vancouver, British Columbia
V.S.G. Lewis, Chairman

Genstar Development Company
Vancouver, British Columbia
L. Cosman, President

Genstar Western Development
Calgary, Alberta
M.H. Rogers, President

Genstar Homes
Calgary, Alberta
C.D. Wilson, President

Genstar Properties Limited (Keith and Engineered Homes)
Calgary, Alberta
G.L. Magnussen, President

Broadmoor Homes-Northern
Dublin, California
J.W. Zellhoefer, President

Broadmoor Homes-Southern
San Diego, California
G.J. Nicholas, President

Genstar Homes of Texas
Houston, Texas
T.C. Cooper, President

Sutter Hill Developments Limited
Toronto, Ontario
R.M. Kirshner, President

Sutter Hill Limited
Palo Alto, California
G.F. Michals, President

Genstar Pacific Investments
Newport Beach, California
G.C. Myers, President

Financial Services

Canada Permanent Mortgage Corporation
Toronto, Ontario
J.A.C. Hilliker, Chairman and Chief Executive Officer

Genstar Container Corporation
San Francisco, California
T.S. Tan, President

Genstar Mortgage Corporation
Glendale, California
E.H. Plaga, President

Genstar Rental Electronics Inc.
Palo Alto, California
W.D. Rollnick, President

Atlas Thrift of Nevada
Reno, Nevada
W.A. Bel, President

TXL Corporation
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Sutter Hill Ventures
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P.M. Wythes, D.L. Anderson, G.L. Baker, Jr., W.H. Younger, General Partners